

# TAXES EXPLAINED

## Vocabulary

- **Filing Status** – your tax-filing group based on your marital status
- **Exemption** – an amount you may subtract from your income for each person who depends on your income to l
- **Gross Income** – all taxable income you receive, including wages, salaries and tips
- **Adjusted Gross Income** – gross income less adjustments
- **Itemized Deductions** – expense listed on Schedule A that you can subtract from adjusted gross income to determine taxable income
- **Standard Deduction** – a stated amount you can subtract from adjusted gross income if you do not itemize deduction
- **Taxable Income** – the amount on which you will pay income tax
- **Tax Credit** – an amount subtracted directly from the tax owed

## Think and Write:

What taxes do people, including yourself, pay?

Are all these taxes the same?

What makes them different from each other?

## Understanding your W2

A W-2 form, officially known as the “Wage and Tax Statement,” is a crucial document used in the United States to report wages paid to employees and the taxes withheld from their earnings. Here are some key points about the W-2 form:

**Purpose:** Employers are required to complete a Form W-2 for each employee to whom they pay a salary, wage, or other compensation as part of the employment relationship. The form serves several purposes:

- **Employee Record:** It provides employees with a summary of their annual wages, tips, and other compensation.
- **Tax Reporting:** Employers use it to report income and tax withholding to the Internal Revenue Service (IRS).
- **Taxpayer’s Use:** Employees use it when filing their individual income tax returns.

### Contents of Form W-2:

- **Box 1 (Wages, Tips, and Other Compensation):** Shows the total taxable wages paid to the employee during the year.
- **Box 2 (Federal Income Tax Withheld):** Displays the amount of federal income tax withheld from the employee’s pay.
- **Other Boxes:** Additional boxes report various items such as Social Security wages, Medicare wages, state income tax withheld, and more.

### Other Information on Form W-2:

- **Health Insurance Premiums:** The form may include information about health insurance premiums paid by the employer.
- **Dependent Care Benefits:** It also shows any money received in dependent care benefits.
- **Retirement Contributions:** Contributions to retirement plans (e.g., 401(k)) are often reported.

### Filing and Distribution:

- Employers must provide employees with their W-2 forms by January 31st of the following year.
- Employees use the information on the W-2 to complete their tax returns.
- Remember that accurate reporting on Form W-2 is essential for both employers and employees. If you’re an employee, review your W-2 carefully and use it when filing your taxes.

<b>22222</b>		<b>a</b> Employee's social security number 123-45-6789		OMB No. 1545-0008	
<b>b</b> Employer identification number (EIN) 55-5765489			<b>1</b> Wages, tips, other compensation 48,500.00		<b>2</b> Federal income tax withheld 6,835.00
<b>c</b> Employer's name, address, and ZIP code  The Big Company 12 Main Street Anywhere, NC 28111			<b>3</b> Social security wages 50,000.00		<b>4</b> Social security tax withheld 3,100.00
			<b>5</b> Medicare wages and tips 50,000.00		<b>6</b> Medicare tax withheld 725.00
			<b>7</b> Social security tips		<b>8</b> Allocated tips
<b>d</b> Control number A1B2			<b>9</b> Verification code		<b>10</b> Dependent care benefits
<b>e</b> Employee's first name and initial Last name Suff.  Jane A. Doe 123 Elm Street Anywhere Else, PA 17111			<b>11</b> Nonqualified plans		<b>12a</b> D   1,500.00
			<b>13</b> Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		<b>12b</b> DD   1,000.00
			<b>14</b> Other		<b>12c</b> P   4,800.00
					<b>12d</b> 
<b>f</b> Employee's address and ZIP code					
<b>15</b> State PA	<b>Employer's state ID number</b> 124578	<b>16</b> State wages, tips, etc. 50,000.00	<b>17</b> State income tax 1,535.00	<b>18</b> Local wages, tips, etc. 50,000.00	<b>19</b> Local income tax 750.00
					<b>20</b> Locality name AW

**Form W-2 Wage and Tax Statement**  
Copy 1—For State, City, or Local Tax Department

**2017**

Department of the Treasury—Internal Revenue Service

Box	Description
A	Employee's Social Security Number: Your Social Security Number.
B	Employer Identification Number: Employer's federal tax identification number.
C	Employer's name, address, and ZIP code
D	Control Number: Optional field for employer use.
E/F	Employee's name, suffix AND employee's address and ZIP code: Your employee identification number, full name (as shown on your Social Security Card), and address.
1	<b>Wages, tips, other compensation:</b> Your total federal taxable gross pay. <i>This can include:</i> <ul style="list-style-type: none"> <li>Wages, bonuses, and other cash compensation (including prizes or awards)</li> <li>Non-cash fringe benefits</li> <li>Executive life insurance</li> <li>Imputed income</li> <li>Non-qualified moving expenses</li> <li>Taxable employee business expense reimbursements</li> </ul>
2	<b>Federal income tax withheld:</b> The total amount of federal income tax that was withheld from your wages, tips, and other compensation.
3	<b>Social Security wages:</b> Total wages that are subject to social security tax.
4	<b>Social security tax withheld:</b> The amount of social security tax withheld from all taxable wages.
5	<b>Medicare wages and tips:</b> The total wages, tips, and other compensation that are subject to Medicare taxes. There is no limit on the amount of wages that are subject to Medicare taxes.

Box	Description
6	<b>Medicare tax withheld:</b> The amount of Medicare tax withheld from your Medicare taxable wages, tips, and other compensation. This amount should be equal to 1.45% of the wages listed in Box 5.
9	<b>Advance EIC payment:</b> The total amount of any EIC (earned income credit) payments you have received during the year.
10	<b>Dependent care benefits:</b> The total amount of any dependent care you had deducted for the year.
11	<b>Nonqualified plans:</b> Amounts distributed to you from nonqualified deferred compensation plans or non-government Section 457 pension plan. The amount in Box 11 is already included as taxable wages in Box 1.
12	<b>The total amount of executive life insurance, 403(b) or 457(b) contributions, and excludable moving expenses.</b>
13	<b>Retirement plan:</b> This box is checked if you are a member of the employers' retirement plan.
14	<b>Other:</b> This box is used to report other information to you. This box may contain one or more of the following: <ul style="list-style-type: none"> <li>• Defined contribution plan (DCP) casual (CAS) or regular (REG) contributions</li> <li>• Imputed income</li> <li>• Travel reimbursement</li> <li>• Taxable relocation expenses</li> <li>• Union dues withheld</li> <li>• Uniform payment deductions</li> <li>• Non-excludable moving expenses</li> </ul>
15	<b>State code and employer's state I.D. number</b>
16	<b>State wages, tips, etc:</b> The total state taxable gross pay you received.
17	<b>State income tax:</b> The total state income taxes that were withheld from your compensation.
18	<b>Local wages, tips, etc:</b> The total local taxable gross pay you received.
19	<b>Local income tax:</b> The total local income tax withheld from your compensation.
20	<b>Locality:</b> If you live and/or work outside of Oregon and the locality that you reside in requires withholding, the locality name will be displayed.

Name\_\_\_\_\_ Date\_\_\_\_\_

**W4: Checking for Understanding**

1. What does “exemption from withholding” mean?
  
  
  
  
  
  
  
  
  
  
2. Some people claim others as dependents on their tax returns. In terms of the amount of taxes paid, what does it mean to claim someone as a dependent?
  
  
  
  
  
  
  
  
  
  
3. Angela Smith is a 23-year-old college graduate with her first job. She is not married, and she has no children. Her parents no longer claim her as a dependent. She is having trouble filling out her W-4 form. Write a text to Angela explaining why she must fill it out. Restate the information and instructions in the W-4 form to make it easier for her to complete.

**Possible answers to Think and Write questions:**

**What taxes do people, including yourself, pay?**

Answers will vary, but students will likely note sales taxes or many other taxes such as income taxes, excise taxes, tariffs, property taxes, or payroll taxes.

**Are all these taxes the same?**

No

**What makes them different from each other?**

Answers will vary but will likely focus on the tax rate, what the tax is collected for, or how and when the taxes are paid.

Video on W-4 [W-4 | Education | St. Louis Fed \(stlouisfed.org\)](https://www.stlouisfed.org/education/personal-finance-101-conversations/episode-22-w-4-form)

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