4 FICA Taxes and Voluntary Deductions

LEARNING OBJECTIVES

- Calculate Social Security tax
- Calculate Medicare tax
- Identify states in which state disability insurance is withheld
- Apply various voluntary deductions
- Record employee payroll journal entries

Having calculated federal and state tax withholdings in the last chapter, you're now ready to examine the remaining mandatory deductions from gross earnings. These include Social Security tax and Medicare tax, which are collectively referred to as FICA taxes. In this chapter, you'll review the purpose and application of FICA taxes. You'll also examine state disability insurance and voluntary deductions in detail. After completing the payroll register and employee earnings records, you'll conclude by examining the journal entries related to the deductions discussed in Chapter 3 and this chapter.

Videos available! Check out the Video Launch Pad in your student exercise file download to access videos associated with this chapter. One video presents a chapter overview, and the other provides more detail on a key chapter topic.

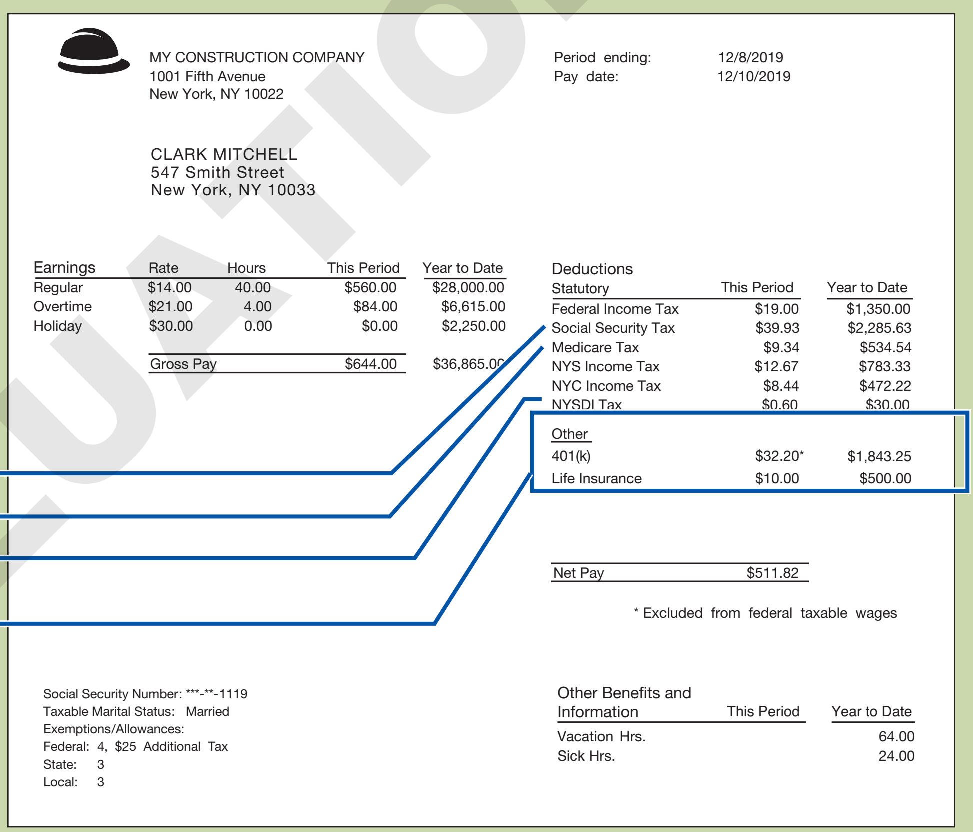
CASE STUDY

Determining FICA Taxes and Voluntary Deductions for Lucky Ties Apparel

After having deducted federal and state income tax withholding from employee earnings, Lucky Ties Apparel must then calculate further deductions. FICA taxes include Social Security and Medicare tax, both of which must be withheld from employee pay. While the applicable rates for these taxes are the same for each employee, there is an annual per-employee ceiling on Social Security taxes that must be taken into consideration.

To complete your understanding of employee deductions, you review both Social Security and Medicare tax. You then examine state disability insurance (which is applicable only in some states), and further review a number of voluntary deductions. After including these tax calculations in both the payroll register and the employee earnings records, you finish by reviewing the required journal entry to account for both deductions and net pay.

Social Security and Medicare taxes are mandatory for all employees, while state disability insurance and voluntary deductions are also withheld for some employees.



MY CONSTRUCTION COMPANY
1001 Fifth Avenue
New York, NY 10022

Period ending: 12/8/2019
Pay date: 12/10/2019

CLARK MITCHELL
547 Smith Street
New York, NY 10033

Earnings	Rate	Hours	This Period	Year to Date
Regular	$14.00	40.00	$560.00	$28,000.00
Overtime	$21.00	4.00	$84.00	$6,615.00
Holiday	$30.00	0.00	$0.00	$2,250.00
Gross Pay			$644.00	$36,865.00

Deductions

Statutory	This Period	Year to Date
Federal Income Tax	$19.00	$1,350.00
Social Security Tax	$39.93	$2,285.63
Medicare Tax	$9.34	$534.54
NYS Income Tax	$12.67	$783.33
NYC Income Tax	$8.44	$472.22
NYSDI Tax	$0.60	$30.00
Other		
401(k)	$32.20*	$1,843.25
Life Insurance	$10.00	$500.00
Net Pay	$511.82	

* Excluded from federal taxable wages

Social Security Number: ***-**-1119
Taxable Marital Status: Married
Exemptions/Allowances:
Federal: 4, $25 Additional Tax
State: 3
Local: 3

Other Benefits and Information	This Period	Year to Date
Vacation Hrs.		64.00
Sick Hrs.		24.00

Social Security Tax

Medicare Tax

State Disability Insurance

Voluntary Deductions

Social Security Tax

Also referred to as OASDI (old age, survivors, and disability insurance), Social Security tax was initially established to provide employees with retirement benefits. Over time the program was expanded to provide financial support to employees' survivors and to disabled employees.

Initially, the Social Security tax rate was 1% of taxable earnings. This rate was in place from 1937–1949, after which it has steadily increased over the years. A number of credits have, for certain years, been passed into law, and have reduced the effective Social Security tax rate remitted on the employee's behalf. The most recent tax rates (before taking these credits into account) are shown here.

Year(s)	Social Security Tax Rate
1974–1977	4.95%
1978	5.05%
1979–1980	5.08%
1981	5.35%

Year(s)	Social Security Tax Rate
1982–1983	5.40%
1984–1987	5.70%
1988–1989	6.06%
1990–2019	6.20%

NOTE! Whereas employees are permitted to increase federal and state income tax withholdings by a set amount each pay period, this is neither necessary nor permissible for Social Security tax.

The Social Security Wage Base

Aside from the applicable Social Security tax rate, which is presently 6.2%, you must also consider the earnings threshold over which Social Security tax is not levied. Once an employee's year-to-date taxable earnings reaches this threshold (referred to as the Social Security wage base), no further Social Security tax is withheld until the beginning of the following year. The result is that no Social Security tax is paid by the employee after that employee earns a specified amount during the year. From 1937–1950, the first wage base was $3,000. Therefore, Social Security tax was levied on the first $3,000 earned by each employee during these years. Annual earnings above $3,000 for each employee were not subject to the tax. Similar to the Social Security tax rate, the wage base has increased steadily since that time. As of 2019, the wage base is $132,900.

Year(s)	Social Security Wage Base
2007	$97,500
2008	$102,000
2009–2011	$106,800
2012	$110,100
2013	$113,700

Year(s)	Social Security Wage Base
2014	$117,000
2015–2016	$118,500
2017	$127,200
2018	$128,400
2019	$132,900

Taxable Earnings for Social Security Tax

Similar to the taxable earnings for federal and state income tax withholding, taxable earnings for Social Security tax also exclude certain portions of gross pay. Among the amounts that must be subtracted from gross pay to arrive at taxable earnings for Social Security tax are those deducted for cafeteria plans (including flexible spending accounts, such as those for dependent care expenses). Refer to the chart provided in Chapter 3 for a review of those payments that are both taxable and nontaxable for FICA taxes (Social Security and Medicare taxes).

WARNING! Retirement plan contributions (such as those for 401(k) and 403(b) plans) are taxable for Social Security tax and should not be subtracted from gross pay when calculating taxable earnings for Social Security tax.

Calculating Social Security Tax

Here we will review how to calculate Social Security tax. In Chapter 6 we will examine how Social Security tax is reported on a quarterly basis within Form 941 and on an annual basis within Forms W-2 and W-3. To calculate an employee's Social Security tax, the employer must undertake a four-step process, outlined below:

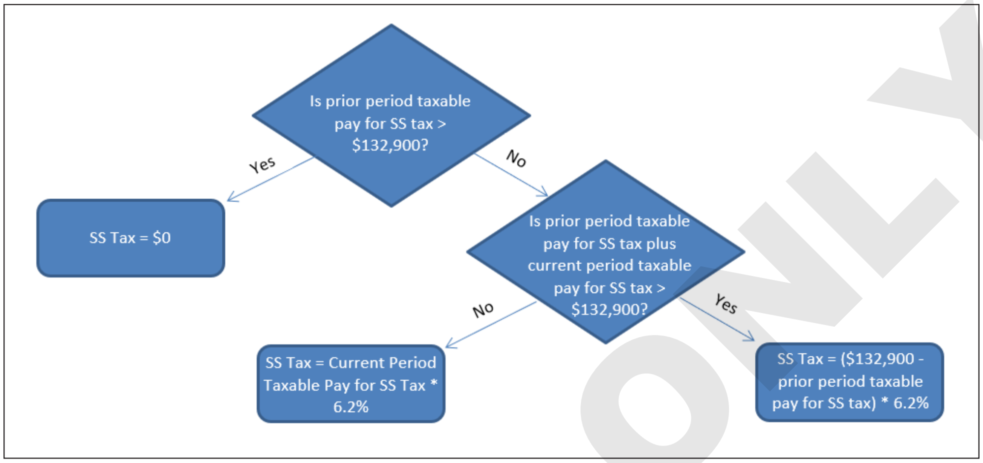
Step 1: Determine current period taxable earnings for Social Security tax.

Step 2: Add the Step 1 result to the year-to-date taxable earnings for Social Security tax.

Step 3:
- If the Step 2 result exceeds the Social Security wage base, determine the amount by which it is higher and subtract this amount from the Step 1 result. Your new amount (if it is positive) is used to determine Social Security tax in Step 4 (a negative result indicates that $0 should be used in Step 4).
- If the Step 2 result does not exceed the Social Security wage base, use the Step 1 result when determining Social Security tax in Step 4.

Step 4: Multiply the current 6.2% tax rate by the Step 3 result.

An alternate overview of the Social Security tax calculation can be seen in the flow-chart below:



Case in Point 4-1 Calculate Social Security Tax

For each of the following employees of Lucky Ties Apparel, we'll calculate the Social Security tax for the current weekly pay period:

1. Paul Rogers earned gross pay of $402.50. Each period he makes a 401(k) contribution of 8% of gross pay. His current year taxable earnings for Social Security tax, to date, are $83,900.

   Step 1: Here, taxable earnings for Social Security tax are the same as gross pay. The only voluntary deduction is the retirement plan, which is taxable for the purposes of Social Security. Therefore, the current period taxable earnings are $402.50.

   Step 2: When the current period taxable earnings of $402.50 are added to the year-to-date earnings of $83,900, the result is $84,302.50.

   Step 3: The Step 2 result does not exceed the taxable wage base of $132,900, and therefore all of the current week's taxable earnings of $402.50 (the Step 1 result) are subject to Social Security tax.

   Step 4: The Social Security tax for this employee is $24.96 ($402.50 current period taxable earnings × 6.2% Social Security tax rate).

2. Maryanne Sherman earned gross pay of $769.23. She does not make any retirement plan contributions. Her current year taxable earnings for Social Security tax (which include a nondiscretionary bonus), to date, are $135,750.

   Step 1: Here, taxable earnings for Social Security tax are the same as gross pay. There are no voluntary deductions that would reduce taxable earnings for Social Security tax. Therefore, the current period taxable earnings are $769.23.

Step 2: When the current period taxable earnings of $769.23 are added to the year-to-date earnings of $135,750, the result is $136,519.23.

Step 3: The Step 2 result exceeds the Social Security wage base by $3,619.23 (Step 2 result of $136,519.23 minus the Social Security wage base of $132,900). When subtracted from the current period taxable earnings of $769.23, the result is –$2,850. Because the wage base was exceeded before adding any of the current week's earnings, we arrive here at a negative result. We therefore utilize $0 in Step 4, as none of the current period earnings are subject to Social Security tax.

Step 4: The Social Security tax for this employee is $0 ($0 current period taxable earnings × 6.2% Social Security tax rate).

3. Bill Novak earned gross pay of $725. Each period he contributes 6% of gross pay to a flexible spending account. His current year taxable earnings for Social Security tax, to date, are $128,900.

Step 1: Here, taxable earnings for Social Security tax are less than gross pay. The employee contributes $43.50 ($725 gross pay × 6% rate) to a flexible spending account. This amount is not taxable for Social Security tax, and therefore taxable earnings are $681.50 ($725 gross pay – $43.50 nontaxable portion).

Step 2: When the current period taxable earnings of $681.50 are added to the year-to-date earnings of $128,900, the result is $129,581.50.

Step 3: The Step 2 result does not exceed the Social Security wage base of $132,900, and therefore all of the current week's taxable earnings of $681.50 (the Step 1 result) are subject to Social Security tax.

Step 4: The Social Security tax for this employee is $42.25 ($681.50 current period taxable earnings × 6.2% Social Security tax rate).

4. Angelo Dorsett earned gross pay of $883.75. Each period he designates 10% of gross pay for a dependent care flexible spending account. His current year taxable earnings for Social Security tax, to date, are $132,800.

Step 1: Here, taxable earnings for Social Security tax are less than gross pay. The employee designates $88.38 ($883.75 gross pay × 10% rate) for a dependent care flexible spending account. This amount is not taxable for Social Security tax, and therefore taxable earnings are $795.37 ($883.75 gross pay – $88.38 nontaxable portion).

Step 2: When the current period taxable earnings of $795.37 are added to the year-to-date earnings of $132,800, the result is $133,595.37.

Step 3: The Step 2 result exceeds the Social Security wage base by $695.37 (Step 2 result of $133,595.37 minus the Social Security wage base of $132,900). When subtracted from the current period taxable earnings of $795.37, the result is $100. We therefore utilize $100 in Step 4, as this is the only portion of current period earnings that are subject to Social Security tax.

Step 4: The Social Security tax for this employee is $6.20 ($100 current period taxable earnings × 6.2% Social Security tax rate).

Medicare Tax

Also referred to as HI (hospital insurance), Medicare tax funds health-care coverage for individuals 65 or older. Taxable earnings for Medicare tax are calculated in the same manner as taxable earnings for Social Security tax.

TIP! Because they are both mandated under the Federal Insurance Contributions Act, Social Security tax and Medicare tax are collectively referred to as FICA taxes.

Initially, the Medicare tax rate was 0.35% of taxable earnings. This rate was in place in 1966, after which it increased repeatedly before reaching the current rate of 1.45%. A complete history of Medicare tax rates is shown here.

Year(s)	Medicare Tax Rate
1966	0.35%
1967	0.50%
1968–1972	0.60%
1973	1.00%
1974–1977	0.90%

Year(s)	Medicare Tax Rate
1978	1.00%
1979–1980	1.05%
1981–1984	1.30%
1985	1.35%
1986–2019	1.45%

As with Social Security tax earlier, we review the calculation of Medicare tax here, and in Chapter 6 we will examine how Medicare tax is reported on a quarterly basis within Form 941 and on an annual basis within Forms W-2 and W-3.

Additional Medicare Tax

Beginning in 2013, an Additional Medicare Tax of 0.9% was imposed on individuals whose earnings exceeded specified levels. This tax was implemented as a result of the Patient Protection and Affordable Care Act, which was signed into law in 2010. The extra revenue generated by the Additional Medicare Tax is designed to fund the expanded health-care coverage that is provided through this legislation.

The income threshold over which Additional Medicare Tax is levied is based on an individual's filing status. The filing status that an individual elects on his/her year-end tax return, while primarily impacted by marital status, can be influenced by other factors (such as a desire to file separately from one's spouse or the payment of at least half of the cost of keeping up a home for an unmarried individual). The applicable thresholds for Additional Medicare Tax are shown here.

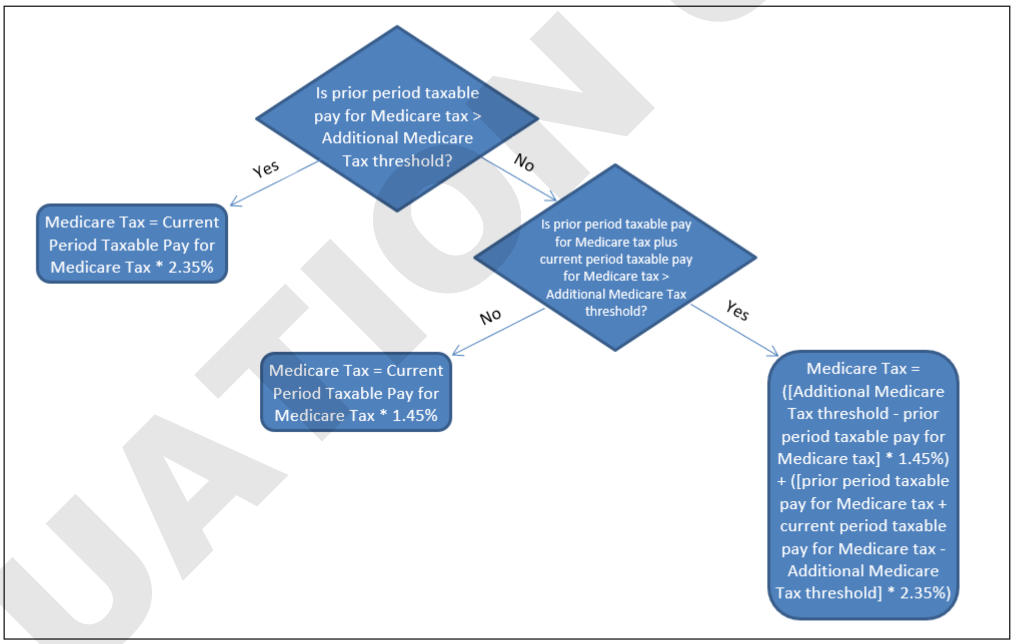
Filing Status	Earnings Threshold
Single/head of household/qualifying widower	$200,000
Married filing jointly	$250,000
Married filing separately	$125,000

WARNING! Unlike for Social Security tax, there is no upper earnings limit above which Medicare tax is not levied. All employee earnings are subject to standard Medicare tax, while Additional Medicare Tax is also levied on high-income individuals.

During the pay period in which an employee reaches the Additional Medicare Tax threshold of $200,000, only the portion of taxable earnings that exceeds the threshold is subject to the Additional Medicare Tax rate.

Although the earnings threshold over which Additional Medicare Tax is levied differs based on filing status, the IRS simplifies the process of withholding this tax by instructing employers to collect Additional Medicare Tax from all earnings exceeding $200,000 for every employee, regardless of filing status. While this can result in either too much or too little tax being withheld for certain employees, that is resolved when the employee files his/her tax return at year-end.

An overview of the Medicare tax calculation is shown in the flowchart below:



Case in Point 4-2 Calculate Medicare Tax

For each of the following employees, we will calculate the Medicare tax for the current weekly pay period:

1. Beverly Itzin's filing status is married filing jointly, and she has earned gross pay of $3,525. Each period she makes a 401(k) contribution of 8% of gross pay and contributes $100 to a flexible spending account. Her current year taxable earnings for Medicare tax, to date, are $122,400.

   Beverly's taxable earnings for Medicare tax do not include her contribution to the flexible spending account and therefore are $3,425 ($3,525 gross pay – $100 flexible spending account contribution). Note that the 401(k) payment is fully taxable for Medicare tax. She has not yet reached the earnings threshold over which the Additional Medicare Tax is assessed, so her Medicare tax is $49.66 ($3,425 taxable earnings × 1.45% Medicare tax rate).

2. Willard Poe's filing status is single, and he has earned gross pay of $4,100. Each period he makes a 403(b) contribution of 10% of gross pay and contributes $200 to a cafeteria plan. His current year taxable earnings for Medicare tax, to date, are $207,400.

   Willard's taxable earnings for Medicare tax do not include his contribution to the cafeteria plan and therefore are $3,900 ($4,100 gross pay – $200 cafeteria plan contribution). Note that the 403(b) payment is fully taxable for Medicare tax. He has reached the earnings threshold of $200,000, and therefore Additional Medicare Tax is assessed on these earnings. The total Medicare tax rate on these earnings is 2.35% (1.45% standard tax rate + 0.90% additional tax rate). Therefore, his resulting Medicare tax is $91.65 ($3,900 taxable earnings × 2.35% total Medicare tax rate).

3. Yelena Phillips' filing status is single, and she has earned gross pay of $2,000. Her current year taxable earnings for Medicare tax, to date, are $199,600.

   Yelena reached the $200,000 earnings threshold during the current period. The portion of her earnings that does not exceed the threshold is $400 ($200,000 threshold – $199,600 earnings to date), while the portion of her earnings that does exceed the threshold is $1,600 ($2,000 gross pay – $400 portion not exceeding threshold). While $400 is subject only to Medicare tax of 1.45%, $1,600 is subject to both regular and Additional Medicare Tax (2.35% rate). Therefore, total Medicare tax owed is $43.40 ($400 × 1.45% + $1,600 × 2.35%).

Additional Withholding Tax Considerations

Aside from the mandatory deductions that you have examined thus far, there are a wide variety of other amounts that may be withheld from gross pay. Among these are state disability insurance, wage garnishments, retirement plans, cafeteria plans, union dues, and charitable contributions.

State Disability Insurance

Disability insurance programs provide short-term benefits to employees who are unable to work as a result of an off-the-job circumstance. Presently there are five states (California, Hawaii, New Jersey, New York, and Rhode Island), as well as the commonwealth of Puerto Rico, that require employers to carry disability insurance for their employees. Depending on each state's regulations, employees may be required to contribute toward the insurance coverage through payroll withholding. For example, in New York State an employer may require that 0.5% of an employee's earnings (not to exceed $0.60/week) be withheld for this purpose.

Wage Garnishments

A **wage garnishment** is the withholding of a portion of an employee's earnings in compliance with a court order or other legal proceeding. Among the most common reasons for the levying of a wage garnishment are child support, alimony payments, bankruptcy, federal or state tax payments, student loans, and creditors to whom amounts are owed.

Title III of the Consumer Credit Protection Act (CCPA) dictates both that employers may not discharge an employee as a result of a wage garnishment and that the amount of the garnishment may not exceed a prescribed level. Wage garnishments are limited to the lesser of 25% of disposable earnings (gross pay minus mandatory deductions) or the amount of disposable earnings that exceed 30 times the federal minimum wage (disposable earnings – [30 × federal minimum wage]). This limit may be increased in certain instances, such as garnishments for child support, bankruptcy, and federal or state tax payments.

Although the CCPA does not address the order in which garnishments are satisfied, other federal and state laws can be examined to determine which garnishments to pay when an employee is subject to two or more. Typically the order in which multiple garnishments are satisfied is based on when each garnishment order is received, with the earlier garnishments receiving priority. However, this order is not always followed, as child support payments and federal tax levies are typically satisfied before other garnishments. Federal student loans are satisfied next, then state and local tax levies and student loans, and finally commercial garnishments. Remember that multiple garnishments cannot result in total garnishments exceeding the limits prescribed within the CCPA, so it is possible for lower-priority garnishments to be reduced or postponed until higher-priority garnishments are fully satisfied.

One additional item to keep in mind is that bankruptcy proceedings will stop the majority of wage garnishments; however, child support payments continue concurrently with bankruptcy proceedings.

NOTE! If the state regulations applicable to an employee limit wage garnishments to a smaller amount than is permissible under federal regulations (as described above), the smaller state regulations take precedence.

Contributing to Retirement Plans

Depending on the circumstance, an employee may choose from a wide variety of retirement plans. Contributions to these plans constitute voluntary deductions from gross earnings. Some of the most common retirement plans, as well as the federal law regulating these plans, are discussed here.

401(k) Plan

A **401(k) plan** (named after the associated subsection of the Internal Revenue Code) is a defined-contribution retirement plan under which a set amount may be withheld from gross earnings each pay period. These funds are tax deferred, meaning that they are not subject to federal income tax withholding when earned but are taxed when the employee withdraws the funds subsequent to retirement.

Some employers choose to match employee contributions to a 401(k) plan. Additionally, an employee is permitted to contribute only up to a specified amount ($19,000 in 2019) to the plan each year.

403(b) Plan

A **403(b) plan** (named after the associated subsection of the Internal Revenue Code) is also referred to as a tax-sheltered annuity (TSA) plan. It is very similar to a 401(k) plan; however, 403(b) plans are available only to certain employees of the following institution types:

- public education institutions
- certain tax-exempt organizations

Ministers can also be eligible for a 403(b) plan. For all of these eligible individuals, the annual contribution limit in 2019 is the same $19,000 as it is for a 401(k) plan.

TIP! Both 401(k) and 403(b) plans allow for *catch-up* withholdings, which are additional annual withholdings (above the initial $19,000) based on employee age and/or years of service.

SIMPLE IRA Plan

A **SIMPLE IRA** (Individual Retirement Arrangement) is a retirement plan designed for employees of small businesses (fewer than 100 employees). SIMPLE stands for *Savings Incentive Match Plan for Employees*. Although these retirement plans are relatively easy for an employer to establish, a significant drawback is that the contribution limit ($13,000 in 2019) is lower than that for a 401(k) or 403(b) plan. Another difference is that the employer is required to contribute to a SIMPLE IRA plan, while employer contributions are optional for a 401(k) or 403(b) plan. The employee may choose to have amounts withheld from gross earnings for a SIMPLE IRA plan but is not required to do so. If the employee does choose to contribute, the deduction from gross earnings is exempt from federal income tax withholding.

Payroll Deduction IRA

A **Payroll Deduction IRA** is perhaps the simplest retirement plan option. For this reason, it is often utilized by individuals who are self-employed. Only the employee may contribute to a Payroll Deduction IRA, and the 2019 annual contribution is limited to the lesser of $6,000 ($7,000 for employees age 50 or older) or taxable earnings. Although contributions to Payroll Deduction IRAs are subject to federal income tax withholding, the employee may receive a tax deduction on his/her year-end tax return for contributions made during the year.

NOTE! A number of other retirement plans are often utilized, including a traditional IRA and a Roth IRA; however, as these do not involve deductions from employee earnings, they are not discussed here.

The Employee Retirement Income Security Act of 1974

On the Web

webapps.dol.gov/dolfaq/go-dol-faq.asp?faqid=225

Commonly referred to as ERISA, the **Employee Retirement Income Security Act of 1974** regulates retirement plans offered by employers. While it does not require that employers offer such plans, for those that do, ERISA sets forth a number of requirements.

Employees must be provided with pertinent retirement plan information, such as the manner in which it is funded. Secondly, fiduciaries of the retirement plan (individuals who can make investment decisions) may be held accountable for breaches of responsibility. This results in more conscientious investing of the funds. Additionally, ERISA sets forth requirements for retirement plan participation, the accumulation of benefits, and the time frame over which plan benefits become nonforfeitable.

Cafeteria Plans

A cafeteria plan is a group of benefits offered by an employer. To offer a cafeteria plan, the employer must give each employee a choice of at least one taxable option (compensation on which tax is levied; this is typically cash) and one nontaxable option. The voluntary nontaxable deductions afforded to employees through a cafeteria plan can include:

- Medical care reimbursements
- Adoption assistance
- Group-term life insurance
- Health savings account
- Flexible spending account

A flexible spending account is a type of cafeteria plan that sets aside funds to be used for health-care expenses during the year. Some of these plans are designated for a specific purpose, such as a dependent care flexible spending account. These plans contain a *use it or lose it* feature that traditionally prevented employees from carrying over the contributed funds for use in the subsequent year, although this provision has been relaxed in recent years.

If desired, an employee may choose from any of the available options. With a few notable exceptions (such as for adoption assistance and group-term life insurance coverage exceeding $50,000), cafeteria plans are exempt from both federal income tax withholding and FICA tax.

Dependent Care Benefits

Dependent care benefits, which can be offered as part of a cafeteria plan, are among the most common benefits taken advantage of by employees. Employees may receive up to $5,000 per year in dependent care benefits that are not subject to federal withholding tax, Social Security tax, or Medicare tax (this amount is reduced to $2,500 for employees who file tax returns under Married Filing Separately status). These benefits are to be used to care for a qualifying individual so that the employee may work.

Charitable Contributions, Union Dues, and Insurance Premiums

Employees may choose to have charitable contributions voluntarily deducted from gross earnings and remitted directly to the charity by the employer. Some employers choose to match employee charitable contributions, thereby magnifying the impact of the employee's donation. Although these amounts are subject to federal income tax withholding, the employee typically may claim a deduction on his/her year-end tax return for the contribution amount.

Many different types of employees, such as college faculty members and auto workers, may be eligible to join a union. These organizations negotiate a variety of employment terms on behalf of their members. Union dues are typically withheld from gross earnings as a voluntary deduction but are subject to federal income tax withholding. Similar to charitable contributions, union dues may be claimed as a deduction on the employee's year-end tax return.

Insurance premiums, such as those for health insurance and life insurance, may also be withheld and remitted to the insurance company on behalf of the employee as a voluntary deduction. Except when it is associated with a cafeteria plan, health insurance is subject to federal income tax withholding when it is paid by the employee through a deduction. In this instance, the amount spent may be claimed as a deduction on the employee's year-end tax return.

Case in Point 4-3 Identify Miscellaneous Deductions

See if you can match each of the voluntary deduction types listed in the left column to the corresponding withholding description in the right column. Answers are below.

1.	Wage garnishment
2.	401(k)
3.	Charitable contribution
4.	Cafeteria plan
5.	Union dues
6.	403(b)

A.	An employee elects to withhold amounts to fund multiple benefits on a pre-tax basis.
B.	An amount is withheld as a result of a court order.
C.	An employee working for a public university withholds funds for a retirement plan.
D.	A steelworker elects to withhold funds that are remitted to an organization that advocates on his behalf for work-related issues.
E.	An employee chooses to withhold funds that are remitted directly to a local soup kitchen.
F.	An employee (who is not eligible for a 403(b) plan) withholds the maximum permissible amount ($19,000) for a retirement plan.

The items match up as follows:

1 → B 2 → F 3 → E
4 → A 5 → D 6 → C

Remember the following:

- Wage garnishments are required as a result of a legal proceeding.
- The maximum 401(k) contribution is $19,000.
- Charitable contributions can be made to both large and small organizations.
- A cafeteria plan allows for the selection of multiple options.
- Union dues are paid to a union that advocates on the employee's behalf.
- 403(b) plans are available only to certain employees (such as those who are employed by a public university).

Completing the Payroll Register

Once the withholding amounts identified throughout this chapter have been properly calculated, both the payroll register and the employee earnings records can be completed. The final figure in both the payroll register and the employee earnings records is the net pay. As you have seen, this is the amount for which each employee's paycheck is written. To facilitate the tracking of employee paychecks, the check number is included beside net pay for each pay period.

Recall that Lucky Ties Apparel combines the voluntary deductions on each employee earnings record into a *single voluntary* withholdings column on the payroll register. As a result, each voluntary withholdings figure within the payroll register must be broken out across multiple columns when transferred to the respective employee earnings records.

Case in Point 4-4 Complete a Payroll Register

In this example, we will complete a payroll register for Lucky Ties Apparel. Earlier we calculated the Social Security tax for four different employees of Lucky Ties Apparel. The below payroll register for the most recent week reflects these employees' deductions. Additionally, the payroll register has been populated with information for four other employees (whose earnings were determined in Chapter 2).

Note that none of these remaining four employees exceed the Social Security wage base as of the end of the current pay period. Additionally, Medicare deductions have been entered for each employee. Lastly, the Voluntary Withholdings column contains appropriate withholdings for life insurance, charitable contributions, cafeteria plans, and state disability insurance (Lucky Ties Apparel conducts business in New York State, which allows for the withholding of disability insurance). Based on this payroll register, we will complete the employee earnings records for each employee.

Payroll Register

Pay Period 12/1/2019

Pay Date 12/5/2019

	Earnings							Deductions						
Employee Name	Regular Hours	Regular Rate	Regular Earnings	Overtime Hours	Overtime Rate	Overtime Earnings	Total Earnings	FWT	SWT	Social Security	Medicare	Vol. With.	Check Number	Net Pay
Rogers, P	35	$ 11.50	$ 402.50	0	n/a	$ -	$ 402.50	$ 23.00	$ 18.52	$ 24.96	$ 5.84	$ 42.80	1462	$ 287.38
Sherman, M	n/a	n/a	$ 769.23	0	n/a	$ -	$ 769.23	$ 61.00	$ 38.46	$ -	$ 11.15	$ 10.60	1463	$ 648.02
Novak, B	40	$ 14.75	$ 590.00	6	$ 22.50	$ 135.00	$ 725.00	$ 13.00	$ 34.08	$ 42.25	$ 9.88	$ 69.10	1464	$ 556.69
Dorsett, A	40	$ 17.50	$ 700.00	7	$ 26.25	$ 183.75	$ 883.75	$ 63.00	$ 39.77	$ 6.20	$ 11.53	$ 113.98	1465	$ 649.27
Kubiak, M	40	$ 15.00	$ 600.00	1	$ 22.50	$ 22.50	$ 622.50	$ 7.00	$ 31.13	$ 38.60	$ 9.03	$ 35.60	1466	$ 501.14
Martin, S	40	$ 21.15	$ 846.00	11	$ 31.73	$ 349.03	$ 1,195.03	$ 90.00	$ 59.75	$ 74.09	$ 17.33	$ 60.60	1467	$ 893.26
Marshall, L	40	$ 15.75	$ 630.00	9	$ 23.63	$ 212.67	$ 842.67	$ 51.00	$ 38.76	$ 52.25	$ 12.22	$ 78.01	1468	$ 610.43
McHenry, D	40	$ 15.30	$ 612.00	5	$ 22.95	$ 114.75	$ 726.75	$ 2.00	$ 36.34	$ 45.06	$ 10.54	$ 0.60	1469	$ 632.21
Totals:			$5,149.73			$1,017.70	$ 6,167.43	$310.00	$296.81	$ 283.41	$ 87.52	$ 411.29		$4,778.40

The employee earnings records can now be completed in full. Although not explicitly discussed earlier, a number of deductions (life insurance, charitable contributions, and state disability insurance) were entered for each employee. When these, as well as the previously discussed withholding amounts, are subtracted from gross pay, each employee's net pay is determined.

Employee Earnings Record

Name: Paul Rogers
Address: 657 Flicker Lane
Brockport, NY 14420
SS#: 111-11-1111
Marital Status: Single
Fed. Withholding Allow.: 1
State Withholding Allow.: 1

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	35	$ 11.50	$ 402.50	0	n/a	$ -	$ 402.50	$ 23.00	$ 18.52	$ 24.96	$ 5.84	$ 32.20	$ -	$ 10.00	$ 0.60	1462	$ 287.38

Employee Earnings Record

Name: Maryanne Sherman
Address: 8171 Winston Court
Rochester, NY 14604
SS#: 222-22-2222
Marital Status: Single
Fed. Withholding Allow.: 2
State Withholding Allow.: 1

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	n/a	n/a	$ 769.23	0	n/a	$ -	$ 769.23	$ 61.00	$ 38.46	$ -	$ 11.15	$ -	$ -	$ 10.00	$ 0.60	1463	$ 648.02

Employee Earnings Record

Name	Bill Novak	Marital Status	Married
Address	536A North Yellow Lake Avenue	Fed. Withholding Allow.	4
	Hamlin, NY 14464	State Withholding Allow.	3
SS#	333-33-3333		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 14.75	$ 590.00	6	$ 22.50	$ 135.00	$ 725.00	$ 13.00	$ 34.08	$ 42.25	$ 9.88	$ -	$ 25.00	$ -	$ 44.10	1464	$ 556.69

Employee Earnings Record

Name	Angelo Dorsett	Marital Status	Single
Address	400 Hillside Court	Fed. Withholding Allow.	2
	Hilton, NY 14468	State Withholding Allow.	2
SS#	444-44-4444		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 17.50	$ 700.00	7	$ 26.25	$ 183.75	$ 883.75	$ 63.00	$ 39.77	$ 6.20	$ 11.53	$ -	$ 20.00	$ 5.00	$ 88.98	1465	$ 649.27

Employee Earnings Record

Name	Melissa Kubiak	Marital Status	Married
Address	254 Cheesehead Drive	Fed. Withholding Allow.	4
	Pittsford, NY 14534	State Withholding Allow.	4
SS#	555-55-5555		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 15.00	$ 600.00	1	$ 22.50	$ 22.50	$ 622.50	$ 7.00	$ 31.13	$ 38.60	$ 9.03	$ -	$ -	$ 15.00	$ 20.60	1466	$ 501.14

Employee Earnings Record

Name	Stacie Martin	Marital Status	Married
Address	2 Lava Lane	Fed. Withholding Allow.	2
	Brockport, NY 14420	State Withholding Allow.	1
SS#	666-66-6666		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 21.15	$ 846.00	11	$ 31.73	$ 349.03	$ 1,195.03	$ 90.00	$ 59.75	$ 74.09	$ 17.33	$ -	$ 35.00	$ 25.00	$ 0.60	1467	$ 893.26

Employee Earnings Record

Name	Lucy Marshall	Marital Status	Single
Address	232 Muscle Road	Fed. Withholding Allow.	3
	Hamlin, NY 14464	State Withholding Allow.	2
SS#	777-77-7777		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 15.75	$ 630.00	9	$ 23.63	$ 212.67	$ 842.67	$ 51.00	$ 38.76	$ 52.25	$ 12.22	$ 67.41	$ -	$ 10.00	$ 0.60	1468	$ 610.43

Employee Earnings Record

Name	Donald McHenry	Marital Status	Married
Address	22 Iceberg Lane	Fed. Withholding Allow.	6
	Fairport, NY 14450	State Withholding Allow.	5
SS#	888-88-8888		

	Earnings							Deductions									
Pay Period Ending	Regular Hours Worked	Regular Pay Rate	Regular Wages	Overtime Hours Worked	Overtime Pay Rate	Overtime Wages	Gross Pay	Federal Withholding Tax	State Withholding Tax	Social Security Tax	Medicare Tax	Retirement Contribution	Life Insurance	Charitable Contribution	Additional Withholding	Check Number	Net Pay
12/1/19	40	$ 15.30	$ 612.00	5	$ 22.95	$ 114.75	$ 726.75	$ 2.00	$ 36.34	$ 45.06	$ 10.54	$ -	$ -	$ -	$ 0.60	1469	$ 632.21

Accounting for Payroll (Employee Portion)

Before You Begin: This section assumes prior knowledge of the transaction recording process. Consult with your instructor to determine if you are required to review this material.

Once each employee's earnings, deductions, and net pay are determined, the employer must record a journal entry to account for each element in the payroll register. For the purposes of this journal entry, all gross pay is considered to be either salaries expense or wages expense. These two amounts are not in any way impacted by the breakdown of deductions.

A journal entry to account for employee payroll and its associated withholding amounts would appear as follows:

12/5	Salaries Expense	XXXXX	
	Wages Expense	XXXXX	
	Federal Income Tax Payable		XXXXX
	State Income Tax Payable		XXXXX
	Social Security Tax Payable		XXXXX
	Medicare Tax Payable		XXXXX
	Retirement Plan Payable		XXXXX
	Health Insurance Payable		XXXXX
	Union Dues Payable		XXXXX
	Charitable Contribution Payable		XXXXX
	Cash		XXXXX
	Payment of Salaries & Wages to Employees		

Because the total of salaries expense and wages expense increases as a result of the employee's earnings (employee earnings are seen as a payroll expense by the employer), these accounts are debited for a total amount equal to gross pay.

The corresponding credits in this journal entry account for each of the amounts owed by the employer, as well as the cash paid to the employees in their paychecks. When the employer withholds amounts from employee paychecks, these amounts are immediately owed to the corresponding entities. For example, once federal income tax withholding is withheld from employee gross pay, it is immediately owed to the U.S. government.

The same holds true for a voluntary deduction, so an amount withheld for a charitable contribution is immediately owed to the intended charity. For this reason, every withheld amount is displayed as a credit to a liability account within the necessary journal entry. The credits to payable accounts in this journal entry can change, depending on the types of payroll withholding that a business has during any given pay period. The credit to the Cash account represents the net pay earned by employees. This is the only amount that is actually paid by the employer on the pay date and therefore the only amount displayed as a reduction (credit) to cash.

WARNING! As with every journal entry, total debits must always equal total credits in the employee payroll journal entry.

Case in Point 4-5 Record a Payroll Journal Entry

In this example, we will record a journal entry for Lucky Ties Apparel, in which we account for employee gross pay, payroll withholdings, and net pay. Each employee was subject to $0.60 of state disability insurance, and the only other additional withholding amount on the employee earnings records are contributions to cafeteria plans. Refer to the payroll register and employee earnings records at the end of the previous Case in Point to either calculate or locate the figures included in this journal entry.

TIP! Recall that salaries are compensation typically paid on an annual basis, while wages are compensation typically paid on an hourly basis.

12/5	Salaries Expense	3,533.68	
	Wages Expense	2,633.75	
	Federal Income Tax Payable		310.00
	State Income Tax Payable		296.81
	Social Security Tax Payable		283.41
	Medicare Tax Payable		87.52
	Retirement Plan Payable		99.61
	Life Insurance Payable		80.00
	Charitable Contribution Payable		75.00
	Disability Insurance Payable		4.80
	Cafeteria Plan Payable		151.88
	Cash		4,778.40
	Payment of Salaries & Wages to Employees		

Many of the amounts listed in the journal entry were taken directly from the payroll register. This is one of the primary reasons why it is beneficial to summarize payroll activity for a single pay period in the payroll register.

Also, the debits for gross pay are divided between two accounts. These amounts are the sum of the gross pay for employees who earn a salary (Sherman, Martin, Marshall, and McHenry) and the gross pay for employees who earn wages (Rogers, Novak, Dorsett, and Kubiak).

Self-Assessment

Complete the Self-Assessment as directed by your instructor, whether that is in the book, the Learning Resource Center (labyrinthelab.com/lrc), or your eLab course, if applicable.

True/False Questions

1. The sole purpose of Social Security taxes is to provide retirement benefits to employees. *True* *False*
2. The Social Security wage base for 2019 is $132,900. *True* *False*
3. Taxable earnings for Social Security tax are always the same as taxable earnings for federal income tax withholding. *True* *False*
4. Collectively, Social Security tax and Medicare tax are referred to as FICA taxes. *True* *False*
5. The income threshold for Medicare tax indicates the income level above which no Medicare taxes are levied. *True* *False*
6. Employees are required to contribute toward the purchase of disability insurance in all 50 states. *True* *False*
7. The contribution limit for a SIMPLE IRA is lower than that for a 401(k) or 403(b). *True* *False*
8. ERISA is a set of regulations that dictate the manner in which a cafeteria plan may be administered. *True* *False*
9. Flexible spending accounts contain a use it or lose it feature that, although relaxed in recent years, limits the time over which the account's funds may be utilized. *True* *False*
10. Certain withholding amounts are disregarded when determining net pay. *True* *False*

Multiple Choice Questions

11. Which of the following statements regarding Social Security tax is false?
    A. Social Security tax is also referred to as OASDI tax because it was initially established to benefit retired employees, survivors of employees, and disabled employees.
    B. Social Security tax was first levied on employees in 1937.
    C. All earnings of an employee that exceed the taxable wage base in a single year are not subject to Social Security tax.
    D. Contributions to cafeteria plans are not taxable for Social Security tax.
12. Which of the following is taxable for Social Security tax?
    A. Contributions to a 403(b) plan
    B. Contributions to a flexible spending account
    C. Contributions to a dependent care flexible spending account
    D. Contributions to a cafeteria plan

13. How much Social Security tax would be owed by an employee who has taxable earnings for Social Security tax of $2,000, and who, prior to the current pay period, has earned $132,600 of taxable earnings for Social Security tax?
    A. $0
    B. $18.60
    C. $105.40
    D. $124.00
14. The Additional Medicare Tax is paid on a portion of employee earnings by which of the following individuals?
    A. Joe Stinson's filing status is married filing jointly. He earns $174,000 during the year.
    B. Jeanette Yancy's filing status is head of household. She earns $194,000 during the year.
    C. Keanu Levine's filing status is married filing separately. He earns $132,000 during the year.
    D. Carolyn Hughes' filing status is qualifying widow. She earns $187,000 during the year.
15. If an individual whose filing status is single earns $256,000 during the year, what portion of the earnings are subject to Additional Medicare Tax, and what is the total (standard and Additional) Medicare Tax rate that will be applied to these earnings?
    A. $6,000 and 0.9%
    B. $6,000 and 2.35%
    C. $56,000 and 0.9%
    D. $56,000 and 2.35%
16. Contributions to which of the following retirement plans are subject to federal income tax withholding?
    A. 401(k)
    B. 403(b)
    C. SIMPLE IRA
    D. Payroll Deduction IRA
17. Which of the following is not a retirement plan?
    A. 401(k)
    B. Flexible spending account
    C. 403(b)
    D. SIMPLE IRA
18. Which of the following is not a voluntary deduction from gross earnings?
    A. Union dues
    B. State disability insurance
    C. Payroll deduction IRA
    D. Cafeteria plan
19. Assuming that taxable earnings are $51,200 for a 44-year-old individual, which of the following is the contribution limit applicable to a Payroll Deduction IRA?
    A. $6,000
    B. $7,000
    C. $13,000
    D. $19,000
20. Which of the following payroll register columns can contain a combination of multiple withholding amounts?
    A. State Income Tax Withholding
    B. Social Security
    C. Medicare
    D. Voluntary Withholdings

Practice Set A

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

PSa 4-1 Calculate Taxable Earnings for Social Security Tax

For each employee listed below, calculate the taxable earnings for Social Security tax for the described pay period. Note that none of these employees exceeded the Social Security wage base during the year.

1. Devin Moody earned gross pay of $1,450 during a recent pay period. He contributes 11% of gross pay to a 403(b) retirement plan and $100 each pay period to a cafeteria plan.
2. Jaclyn Connor earned gross pay of $1,820 during a recent pay period. She contributes 7% of gross pay to a 401(k) retirement plan and 3% of gross pay to a dependent care flexible spending account.
3. Amy Williams earned gross pay of $990 during a recent pay period. She contributes $75 to a flexible spending account and 5% of gross pay to a separate dependent care flexible spending account.
4. Edward Sorkin earned gross pay of $850 during a recent pay period. He contributes 10% of gross pay to a 401(k) retirement plan.

PSa 4-2 Calculate Social Security Tax

For each of the following employees, calculate the Social Security tax for the weekly pay period described:

1. Alfred Morneau earned gross pay of $820. Each period he makes a 401(k) contribution of 5% of gross pay, and his current year taxable earnings for Social Security tax, to date, are $37,200.
2. Rachel Schillo earned gross pay of $1,900. She does not make any retirement plan contributions, and her current year taxable earnings for Social Security tax, to date, are $105,000.
3. Rudolph Fabrizio earned gross pay of $3,200. Each period he contributes 3% of gross pay to a flexible spending account, and his current year taxable earnings for Social Security tax, to date, are $131,400.
4. Michael Frank earned gross pay of $2,650. Each period he designates 6% of gross pay for a dependent care flexible spending account, and his current year taxable earnings for Social Security tax, to date, are $224,300.

PSa 4-3 Calculate Medicare Tax

For each of the following employees, calculate the Medicare tax for the weekly pay period described:

1. Paul Robinson's filing status is married filing jointly, and he has earned gross pay of $2,650. Each period he makes a 403(b) contribution of 8% of gross pay. His current year taxable earnings for Medicare tax, to date, are $274,000.
2. Stephen Belcher's filing status is single, and he has earned gross pay of $1,840. Each period he makes a 401(k) contribution of 6% of gross pay and contributes 3% of gross pay to a dependent care flexible spending plan. His current year taxable earnings for Medicare tax, to date, are $198,950.
3. Sidney Black's filing status is head of household, and he has earned gross pay of $970. Each period he contributes $50 to a flexible spending plan. His current year taxable earnings for Medicare tax, to date, are $86,400.
4. Bill Clay's filing status is married filing separately, and he has earned gross pay of $1,900. Each period he makes a 403(b) contribution of 10% of gross pay and contributes $75 to a cafeteria plan. His current year taxable earnings for Medicare tax, to date, are $199,600.

PSa 4-4 Calculate FICA Taxes

For each of the following employees, calculate both the Social Security tax and the Medicare tax for the weekly pay period described:

1. Bradley Banks' filing status is qualifying widower, and he has earned gross pay of $1,570. Each period he makes a 401(k) contribution of 6% of gross pay and makes a contribution of 2% of gross pay to a flexible spending account. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $212,900.
2. Kyle Struck's filing status is single, and he has earned gross pay of $2,400. Each period he makes a 403(b) contribution of 9% of gross pay and makes a contribution of 1.5% of gross pay to a cafeteria plan. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $199,500.
3. Sebastian Wayne's filing status is married filing jointly, and he has earned gross pay of $3,820. Each period he makes a 401(k) contribution of 10% of gross pay and contributes $150 to a dependent care flexible spending account. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $92,500.
4. Lukas Douglas' filing status is married filing separately, and he has earned gross pay of $2,000. Each period he makes a 403(b) contribution of 12% of gross pay and contributes $75 to a cafeteria plan. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $132,600.

PSa 4-5 Define Miscellaneous Deductions

For each of the voluntary deductions listed, write a definition of at least two sentences:

1. 403(b)
2. SIMPLE IRA
3. Flexible spending account
4. Union dues
5. Insurance premiums

PSa 4-6 Populate a Payroll Register

This problem is a continuation of exercise PSa 3-8 from Chapter 3.

Complete the remaining columns of the payroll register for the five employees whose information was provided in PSa 2-4, PSa 2-12, and PSa 3-8. All employees work in a state that does not require the withholding of disability insurance. Additional information for each employee is provided below:

- Luisa Williams voluntarily deducts life insurance of $15 and a charitable contribution of $5 each pay period. Her year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $82,600, and she is paid with check #0500.
- Jonathan Olsen voluntarily deducts a charitable contribution of $10 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $31,550, and he is paid with check #0501.
- Nathan Upton does not make any voluntary deductions each period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $132,420, and he is paid with check #0502.
- Juan Rodriguez voluntarily deducts life insurance of $25 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $134,500, and he is paid with check #0503.
- Drew Painter voluntarily deducts life insurance of $20 and a charitable contribution of $25 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $51,750, and he is paid with check #0504.

PSa 4-7 Populate Employee Earnings Records

This problem is a continuation of exercise PSa 3-9 from Chapter 3.

Complete the remainder of the employee earnings records for the five employees from PSa 4-6. The earnings section of the employee earnings records was previously completed in PSa 2-13 and PSa 3-9. Note that voluntary withholdings on the payroll register must be divided across the appropriate columns within the employee earnings records.

PSa 4-8 Record an Employee Payroll Journal Entry

Based on the payroll register and the employee earnings records that you completed in the prior two exercises, record the necessary journal entry to account for employee payroll. All employees' earnings are determined on an hourly basis.

PSa 4-9 Record an Employee Payroll Journal Entry

Based on the following figures for all employees during the most recent pay period, record the necessary journal entry to account for employee payroll as of 10/11/2019. A template to be used with this problem is among the Student Exercise Files.

Account Name	Amount
Retirement Plan Payable	$127.10
Social Security Tax Payable	$356.30
Medicare Tax Payable	$110.43
Cafeteria Plan Payable	$193.80
Wages Expense	$4,605.67

Account Name	Amount
Charitable Contribution Payable	$101.82
State Income Tax Payable	$345.23
Salaries Expense	$3,263.98
Life Insurance Payable	$102.08
Federal Income Tax Payable	$516.78

Practice Set B

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

PSb 4-1 Calculate Taxable Earnings for Social Security Tax

For each employee listed below, calculate the taxable earnings for Social Security tax for the described pay period. Note that none of these employees exceeded the Social Security wage base during the year.

1. Dustin Woodward earned gross pay of $2,200 during a recent pay period. He contributes 8% of gross pay to a 403(b) retirement plan and $50 each pay period to a cafeteria plan.
2. Olivia Sutter earned gross pay of $950 during a recent pay period. She contributes 5% of gross pay to a 401(k) retirement plan and 1% of gross pay to a dependent care flexible spending account.
3. Ana Grantham earned gross pay of $1,420 during a recent pay period. She contributes $40 to a flexible spending account and 2.5% of gross pay to a separate dependent care flexible spending account.
4. Paul Bernstein earned gross pay of $1,100 during a recent pay period. He contributes 14% of gross pay to a 401(k) retirement plan.

PSb 4-2 Calculate Social Security Tax

For each of the following employees, calculate the Social Security tax for the weekly pay period described:

1. Mortimer Klein earned gross pay of $1,340. Each period he makes a 401(k) contribution of 3% of gross pay. His current year taxable earnings for Social Security tax, to date, are $184,600.
2. Helena Smith earned gross pay of $2,000. She does not make any retirement plan contributions. Her current year taxable earnings for Social Security tax, to date, are $132,700.
3. Kasey Wolfe earned gross pay of $1,140. Each period he contributes 1.5% of gross pay to a flexible spending account. His current year taxable earnings for Social Security tax, to date, are $71,900.
4. Matthew Pugh earned gross pay of $880. Each period he designates 2% of gross pay for a dependent care flexible spending account. His current year taxable earnings for Social Security tax, to date, are $132,900.

PSb 4-3 Calculate Medicare Tax

For each of the following employees, calculate the Medicare tax for the weekly pay period described:

1. Caleb Griffin's filing status is married filing jointly, and he has earned gross pay of $3,100. Each period he makes a 401(k) contribution of 7% of gross pay. His current year taxable earnings for Medicare tax, to date, are $198,400.
2. Anderson Fowler's filing status is single, and he has earned gross pay of $2,220. Each period he makes a 403(b) contribution of 11% of gross pay and contributes 2.5% of gross pay to a dependent care flexible spending plan. His current year taxable earnings for Medicare tax, to date, are $124,375.
3. Rick Portnoy's filing status is head of household, and he has earned gross pay of $1,300. Each period he contributes $40 to a flexible spending plan. His current year taxable earnings for Medicare tax, to date, are $206,100.
4. Shawn Buffett's filing status is married filing separately, and he has earned gross pay of $2,680. Each period he makes a 401(k) contribution of 14% of gross pay and contributes $60 to a cafeteria plan. His current year taxable earnings for Medicare tax, to date, are $210,300.

PSb 4-4 Calculate FICA Taxes

For each of the following employees, calculate both the Social Security tax and the Medicare tax for the weekly pay period described:

1. Tyler Samuels' filing status is qualifying widower, and he has earned gross pay of $830. Each period he makes a 401(k) contribution of 9% of gross pay and makes a contribution of 1% of gross pay to a flexible spending account. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $199,720.
2. Jacob Finney's filing status is single, and he has earned gross pay of $1,240. Each period he makes a 403(b) contribution of 8% of gross pay and makes a contribution of 0.8% of gross pay to a cafeteria plan. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $132,100.

3. Charlie Lilly's filing status is married filing jointly, and he has earned gross pay of $1,850. Each period he makes a 401(k) contribution of 15% of gross pay and contributes $60 to a dependent care flexible spending account. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $84,200.
4. Desmond Carroll's filing status is married filing separately, and he has earned gross pay of $4,120. Each period he makes a 403(b) contribution of 5% of gross pay and contributes $90 to a cafeteria plan. His current year taxable earnings for Social Security tax and Medicare tax, to date, are $97,200.

PSb 4-5 Define Miscellaneous Deductions

For each of the voluntary deductions listed, write a definition of at least two sentences:

1. State disability insurance
2. 401(k)
3. Payroll deduction IRA
4. Cafeteria plan
5. Charitable contribution

PSb 4-6 Populate a Payroll Register

This problem is a continuation of exercise PSb 3-8 from Chapter 3.

Complete the remaining columns of the payroll register for the five employees whose information was provided in PSb 2-4, PSb 2-12, and PSb 3-8. All employees work in a state that does not require the withholding of disability insurance. Additional information for each employee is provided below:

- Jimmy Troffa voluntarily deducts life insurance of $10 and a charitable contribution of $15 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $71,300, and he is paid with check #0800.
- Tyler Thomas voluntarily deducts a charitable contribution of $35 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $132,150, and he is paid with check #0801.
- Ryan Brown does not make any voluntary deductions each period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $22,400, and he is paid with check #0802.
- Michael Kaminski voluntarily deducts life insurance of $30 each pay period. His year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $79,560, and he is paid with check #0803.
- Tina Baldwin voluntarily deducts life insurance of $5 and a charitable contribution of $3 each pay period. Her year-to-date taxable earnings for Social Security tax, prior to the current pay period, are $133,700, and she is paid with check #0804.

PSb 4-7 Populate Employee Earnings Records

This problem is a continuation of exercise PSb 3-9 from Chapter 3.

Complete the remainder of the employee earnings records for the five employees from PSb 4-6. The earnings section of the employee earnings records was previously completed in PSb 2-13 and PSb 3-9. Note that voluntary withholdings on the payroll register must be divided across the appropriate columns within the employee earnings records.

PSb 4-8 Record an Employee Payroll Journal Entry

Based on the payroll register and the employee earnings records that you completed in the prior two exercises, record the necessary journal entry to account for employee payroll. All employees' earnings are determined on an hourly basis.

PSb 4-9 Record an Employee Payroll Journal Entry

Based on the following figures for all employees during the most recent pay period, record the necessary journal entry to account for employee payroll as of 5/3/2019. A template to be used with this problem is included in the Student Exercise Files.

Account Name	Amount
State Income Tax Payable	$175.32
Salaries Expense	$3,589.82
Cafeteria Plan Payable	$98.42
Medicare Tax Payable	$56.08
Federal Income Tax Payable	$262.44

Account Name	Amount
Charitable Contributions Payable	$51.71
Life Insurance Payable	$51.84
Retirement Plan Payable	$64.55
Social Security Tax Payable	$180.94
Wages Expense	$406.67

Continuing Payroll Problem

The IRS forms and Excel templates needed for these assignments are included in the Student Exercise Files download for this course. If directed to do so, complete these assignments in Homework Grader.

CPP 4-1 Complete the Payroll Register and Record the Employee Payroll Journal Entry

Calculate Social Security and Medicare tax for a number of employees of TCLH Industries, a manufacturer of cleaning products. None of the employees files as married filing separately on their year-end tax return. Then complete the payroll register using these calculations and the additional information provided below. Lastly, complete the employee earnings records and record the necessary journal entry for employee payroll.

1. Calculate the Social Security Tax and Medicare Tax columns of the payroll register based on information from the prior chapters' Continuing Payroll Problems, as well as the following:
   - Calvin Bell's current year taxable earnings for FICA taxes, prior to the current pay period, are $20,478.57.
   - David Alexander's current year taxable earnings for FICA taxes, prior to the current pay period, are $198,450.
   - Michael Sierra's current year taxable earnings for FICA taxes, prior to the current pay period, are $117,600.
2. Next, complete the remainder of the payroll register for each employee based on the following information:
   - Zachary Fox has authorized voluntary deductions each pay period of $10 for charitable contributions, $15 for life insurance, and $7 for union dues. He receives check #092.
   - Calvin Bell has authorized voluntary deductions each pay period of $15 for charitable contributions and $7 for union dues. He receives check #093.
   - David Alexander has authorized voluntary deductions each pay period of $20 for charitable contributions. He receives check #094.
   - Michael Sierra has authorized voluntary deductions each pay period of $5 for charitable contributions and $20 for life insurance. He receives check #095.
3. Complete the employee earnings records based on the completed payroll register. Note that voluntary withholdings on the payroll register must be divided across the appropriate columns within the employee earnings records.
4. Record the journal entry to account for employee payroll based on the employee earnings records and the totals in the payroll register. Book the entry on the date paychecks are distributed.

Critical Thinking

CT 4-1 Evaluate the Patient Protection and Affordable Care Act

President Obama signed the Patient Protection and Affordable Care Act into law on March 23, 2010. Commonly referred to as Obamacare, this legislation was designed to ensure that all Americans receive adequate health care. As there is an increased cost associated with providing this medical coverage, the federal government needed a method by which it could raise additional funds. The Additional Medicare Tax, which is levied only after an employee has earned a specified amount of income in a single year, is one such method. In this exercise, you will use the Internet to evaluate this legislation and decide whether you are in favor of its enactment.

First, research the legislation to learn about its most important elements. While you should focus on all aspects of the act, pay particular attention to the implications of the Additional Medicare Tax. Write a paragraph of at least four sentences in which you highlight these vital components. Continue your research by examining both the arguments in favor of the act and those against it. Write two more paragraphs (of at least three sentences each) in which you outline these arguments. Lastly, write a concluding paragraph of at least four sentences in which you explain your opinion regarding the effectiveness of this law. Be certain to provide adequate support for your opinion.

Submit your final file based on the guidelines provided by your instructor.

CT 4-2 Review Cafeteria Plan Benefits

A cafeteria plan can provide a wide variety of benefits to an employee. These plans are desirable to both the employer and the employee, as both parties can reduce their tax burden by participating. For this reason, these plans are relatively common. For an employee to derive maximum benefit from a cafeteria plan, that employee must understand the different benefits provided. In this exercise, you will use the Internet to research the most common cafeteria plan features, and then you will describe a number of them.

Begin by researching the possible elements of a cafeteria plan. Identify three components that you believe would be most beneficial for you, either now or in the future. Write a paragraph of at least six sentences in which you discuss your three selected elements. Ensure that you both define the benefit and discuss why you believe it would be helpful to you.

Submit your final file based on the guidelines provided by your instructor.