

Teacher Lesson Plan

Module 1: Payroll Taxes and Federal Income Tax Withholding

Time Frame

One to two class periods

Curriculum Area(s)

- Technology
- Civics/Government
- Family and Consumer Sciences
- History/Social Studies
- Economics

Purpose

To help students understand the withholding of payroll and income taxes from pay.

Objectives

Students will be able to

- identify the types and uses of payroll taxes.
- explain how federal income taxes are used.
- distinguish between gross and net pay.
- describe how employers withhold and remit taxes.
- explain the purpose of Form W-4.

Materials

Online

[Student Lesson—Payroll Taxes and Federal Income Tax Withholding](#)

[Tax Tutorial—Payroll Taxes and Federal Income Tax Withholding](#)

[Simulation 1—Completing Form W-4](#)

[Assessment—Payroll Taxes and Federal Income Tax Withholding](#)

[Assessment Solutions—Payroll Taxes and Federal Income Tax Withholding](#)

[Withholding Estimator—Determine how to have the right amount of tax withheld from your paychecks. \(<https://www.irs.gov/payments/tax-withholding>\)](#)

Print (PDF)

[Fact Sheet—Payroll Taxes and Federal Income Tax Withholding](#)

[Teacher Lesson Plan—Payroll Taxes and Federal Income Tax Withholding](#)

Tax Forms

[Form W-4, Employee’s Withholding Certificate](#)

Background

Social Security tax and the **Medicare tax** are types of **payroll taxes**. Social Security taxes, also known as the “Federal Insurance Contributions Act” tax, provide benefits for retired workers and their dependents and for disabled workers and their dependents. The **Medicare tax** is used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65. **Federal income taxes** are used to provide for national programs such as defense, community development, and law enforcement. Employers withhold payroll taxes and income taxes from employees’ pay. Employees complete **Form W-4, Employee’s Withholding Certificate**, so that employers know how much income tax to withhold from their employees’ pay.

Key Terms

Social Security tax -- Provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the "Federal Insurance Contributions Act" tax.

Medicare tax -- Used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Payroll taxes -- Include Social Security and Medicare taxes.

Federal income tax -- The federal government levies a tax on personal income. The federal income tax provides for national programs such as national defense; veterans and foreign affairs; social programs; physical, human, and community development; law enforcement; and interest on the national debt.

Form W-4, Employee's Withholding Certificate -- Completed by the employee and used by the employer to determine the amount of income tax to withhold.

Federal Insurance Contribution Act (FICA) Tax -- Provides benefits for retired workers and their dependents as well as for disabled workers and their dependents. Also known as the Social Security tax.

Opening the Lesson

Hand out **Fact Sheet—Payroll Taxes and Federal Income Tax Withholding**. Use the following questions to prompt students to share what they know about withholding:

- Can you explain why a worker earns \$100 but receives a paycheck for less than \$100?

The \$100 is gross pay, and the amount of the paycheck is net pay.

- What happens to the amount earned but not received by the employee?
The employer sends these taxes (withheld payroll and income taxes) to the federal government.

- How are payroll taxes used?
Social Security taxes are used to provide for retired workers, disabled workers, and both of their dependents. Workers, retired workers, and spouses of both are eligible to receive Medicare benefits upon reaching age 65.

- How are federal income taxes used?
Federal income taxes are used to pay for (a) national defense; (b) veterans and foreign affairs; (c) social programs; (d) physical, human, and community development; (d) law enforcement; and (e) interest on the national debt.

Note: Refer students who may want to work independently on this module to Student Lesson—Payroll Taxes and Federal Income Tax Withholding

Developing the Lesson

Direct students to Tax Tutorial—Payroll Taxes and Federal Income Tax Withholding. Explain that employers use the Social Security tax rate (6.2 percent), the Medicare tax rate (1.45 percent), and the information on Form W-4 to compute the amount to withhold from employee pay. Emphasize that employers do not keep the amounts withheld from employee pay. Instead, the employers send the payroll taxes and income tax withholdings to the federal government to the appropriate authorities.

Online Activities

Direct students to Simulation 1—Completing Form W-4. Explain to students that by using information about the taxpayer, they will complete Form W-4 for Lawrence Red Owl, a retail store manager.

Classroom Activity

Have students go to <http://www.irs.gov/pub/irs-pdf/p531.pdf> and read the information about Reporting Tip Income. Ask the students “If tips are less than \$20 for one month are they required to report the tips?” Answer: No, they are not required to report the tips for that month.

Concluding the Lesson

After students have completed Tax Tutorial—Payroll Taxes and Federal Income Tax Withholding and Simulation 1—Completing Form W-4, ask them whether they have questions about payroll taxes and income tax withholding. To ensure that they understand the difference between gross pay and net pay, ask the following questions:

- Explain how employees pay the Social Security and Medicare taxes
The employee completes Form W-4, Employee’s Withholding Certificate, so the employer know how much payroll and income taxes to withhold from the employee’s pay.
- Explain how the employer knows how much income tax to withhold.
The employer refers to Form W-4 to calculate the income tax withholding.

Assessment

As a final review, summarize the major lesson points. Remind students that employers withhold payroll taxes from employee pay. Employers use Form W-4 to determine the amount of income tax to withhold. Employers send the withheld taxes to the federal government. When the students are comfortable with the material, have them complete Assessment—Payroll Taxes and Federal Income Tax Withholding.