

Student name: \_\_\_\_\_ Date: \_\_\_\_\_

## MODULE 31

### **Describe the withholding laws and benefits provided by social security, workers' compensation and unemployment compensation.**

#### **Objectives:**

- A. Define tax withholding and list at least three (3) kinds of taxable income.**
- B. List other types of withholding taxes.**
- C. Describe benefits provided by Social Security, Unemployment Compensation, and Workers' Compensation.**

<b>MODULE 31: INFORMATION SHEET</b>
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*TO THE STUDENT: Read and study this information sheet and then complete the student activities at the end of this module.*

#### **What is income tax withholding?**

The federal and state governments and local government agencies can generate taxes for their operation and for providing various services. One such tax is an income tax. The income tax is a "pay as you go" tax. You must pay the tax as you earn or receive income. Federal Income Tax is withheld from the salaries or wages of most employees. This includes bonuses, commissions, and vacation allowances in addition to your regular pay. Tips are also taxable. The tips you receive and report to your employer are included with your regular wages to determine the amount that is withheld. In some cases, taxes are withheld on fringe benefits paid to you. In addition, income tax is withheld from sick pay you receive from your employer or an agent of your employer as it is from your salaries and wages. Generally, income tax will be withheld from pensions and annuities. Income tax is also withheld from certain kinds of gambling winnings.

The amount of federal income tax actually withheld from your paycheck will be determined by current tax rates, the amount you earn, and the information you give your employer when you fill out the form popularly called the "W-4," but titled "Employee's Withholding Allowance Certificate." The W-4 form includes four types of information your employer will use to figure your withholding (see page 7):

1. Whether to withhold at the single person's tax rate or the married person's tax rate.
2. How many withholding allowances you claim.
3. Whether you want to have an additional amount withheld.
4. Whether or not you are exempt from paying federal income taxes.

If your income is low enough that you will not have to pay income tax for the year, you may be exempt from withholding. If you are exempt, your employer will not withhold Federal Income Tax from your wages. An exemption is good for only one year. You must file a new W-4 by February 15 each year to continue your exemption.

There is also a criminal penalty for willfully falsifying information or failing to supply information that would increase the amount withheld. A simple error or an honest mistake will not result in a penalty.

The amount of tax actually paid to the Federal Government for any given year will be determined when and if you file the appropriate federal tax form (Form 1040). Forms must be filed by April 15 following the taxable period of January 1 to December 31 of the prior year. It is very important to have the correct amount of tax withheld from your weekly paycheck. If, after you file your federal tax forms, you owe the federal government more than has been withheld for the year, you may have to pay a penalty, and a new W-4 should be completed with your employer to increase your withholding.

Many state governments and local government agencies collect an income tax through withholding. All income taxes are based on gross wages before deductions.

## Social Security Tax Withholding and Benefits

To pay for the Federal Social Security System, you and your employer will be taxed a percentage of your covered earnings. Covered earnings and the rate of tax may change from year to year to keep up with the financial needs of the Social Security Fund. The Social Security Tax is another "pay as you go" system. Each pay check is or will be taxed at the employee rate to determine the amount of withholding.

What is Social Security? It is a Federal Government program for you and your family when you retire, become severely disabled, or die. It protects you and your family while you work and after you retire. It is a base to build on, with other insurance, investments, private pensions and personal savings.

Most workers begin receiving full retirement benefits at age 65 or reduced retirement benefits as early as age 62. (Starting in the year 2000 for people born in 1938 or later, this age will increase gradually. By 2027, full-retirement age will be 67 for people born after 1959.) Your benefits may be higher if you delay retiring until after full-retirement age.

The Social Security law has a special formula for figuring benefits. The formula uses your average earnings over your entire working life. For most retirement benefit estimates, your 35 best years of earnings will be averaged. If you become disabled or die before retirement, fewer years may be used to figure those benefits. For retirement estimates, it is assumed that you will continue working up to retirement age.

Disability benefits are paid if you become totally disabled before you reach full-retirement age. To get disability benefits, three things are necessary:

- You need a certain number of work credits, and they had to be earned during a specific period of time (you get one credit for each \$700 of your covered annual earnings, up to a maximum of 4 credits for the year, no matter when you work during the year);
- You must have a physical or mental condition that has lasted, or is expected to last, at least 12 months or to end in your death; and
- Your disability must be severe enough to keep you from doing any substantial work, not just your last job.

As you work you also build up protection for your family. Benefits may be payable to:

- Your unmarried children under age 18 (under age 19 if in high school) or 18 and older if disabled before age 22;
- Your spouse who is age 62 or older or who is any age and caring for your qualified child who is under age 16 or disabled; and
- Your divorced spouse who was married to you for at least 10 years and who is age 62 or older and unmarried.

If you die, your unmarried young or disabled children may qualify for monthly payments. Your widow or widower, even if divorced, may also qualify for payments starting:

- At age 60 or at age 50 if disabled (if divorced, your marriage must have lasted 10 years); or
- At any age if caring for your qualified child who is under age 16 or disabled.

Even if you are still working, you may qualify for benefits. Until you reach age 70, there are limits on how much you can earn without losing some or all of your Social Security retirement benefits. These limits change every year. When you apply for benefits, you will be told what the limits are at that time and if work would affect your monthly checks and those of your qualified family members.

Social Security taxes withheld also pay part of Medicare benefits. Medicare is a basic health insurance program for people 65 or older. You are also eligible for Medicare if you have been receiving disability benefits for two years or have permanent kidney failure. There are two parts to Medicare: Hospital Insurance and Medical Insurance. Your Social Security Tax pays for Hospital Insurance coverage but Medical Insurance coverage is optional and requires an additional premium paid by you out of your pocket. Neither plan pays all expenses nor are all services covered. Additional personal insurance coverage is recommended.

### **Unemployment Compensation Benefits**

Unemployment Compensation (U.C.) is a form of job insurance. If you lose your job through no fault of your own, it protects you against total loss of income for a specific period of time. Unemployment compensation benefits are paid for by Federal and state taxes on employers, and if certain economic conditions exist, in Pennsylvania, by employees.

**To qualify for benefits, the applicant must:**

1. Have worked for an employer covered by the U.C. Law.
2. Meet certain wage and weeks of employment requirements. A high school student's employment in a Cooperative Education Program is NOT covered employment and will not qualify the student for U.C. benefits.
3. Be unemployed through no fault of your own.
4. Be able to work and be available for work.

**You may be denied benefits if you:**

1. Quit your job without a valid reason.
2. Were discharged for willful misconduct.
3. Are unemployed because you were involved in a strike.
4. Are unable or unavailable to work.
5. Refuse to accept any suitable work within a reasonable distance of your home.
6. Refuse to accept an offer to suitable full-time work in order to pursue seasonal or part-time employment.
7. Are receiving U.C. from another state or from the federal government.

If unemployed, you may file a claim for benefits at the local office of Employment Security. If there is no reason for disqualification, payment is authorized. The general aim is to pay the unemployed 45 to 50% of his/her regular weekly earnings up to a maximum allowed by state law.

The maximum weekly benefit is determined by the highest amount earned in any one of the first four quarters of the "base year". "Base year" is established as the first four of the last five completed calendar quarters prior to the date on which application is made for benefits. In addition, each claimant can receive additional money for each dependent to the maximum allowed by law.

The duration of payments can extend up to 26 weeks of total unemployment during the 52-week period beginning with the date of application for benefits. A federal program could extend U.C. benefits for another 9 or 13 weeks in some cases. In addition, a small amount of money can be earned without losing any benefit depending on the amount of unemployment compensation. Consult your local employment service office. All U.C. benefits received must be reported on your Federal Income Tax Return. These benefits may be taxable depending on your adjusted gross income for the tax year.

### **Pennsylvania Workers' Compensation Law**

To participate in a cooperative education program, your employer is required to maintain workers' compensation coverage (either by being approved to self-insure and hiring a third party administrator to handle its claims or by purchasing a workers' compensation policy through an insurance company). The coverage will pay wage loss benefits and reasonable and necessary medical bills should you be injured on-the-job or develop a work-related disease unless your employer can prove the injury was intentionally self-inflicted or caused by your violation of law.

An injured employee will generally receive  $\frac{2}{3}$  of the employee's average weekly wage as a wage loss benefit for the duration of any work-related disability—up to but not more than  $66\frac{2}{3}$  percent of the current statewide average weekly wage. Wage loss benefits begin with the 7<sup>th</sup> day of disability unless the disability lasts 14 days or more—in which case benefits are paid from day one. If the calculated benefit is less than 50% of the statewide average weekly wage, then the benefit payable is the lesser of 50% of the statewide average weekly wage or 90% of the injured worker's average weekly wage. When an injury results in a permanent loss such as the loss of/loss of use of appendages, hearing or sight, the number of wage loss benefit weeks is specified by state law.

In the case of a work-related injury or disease resulting in death, dependent beneficiaries may be entitled to wage loss benefits as the result of the death and reasonable costs of burial not exceeding \$3000 may also be covered.

If a minor to which child labor laws apply suffers a work-related injury or disease while being permitted to work in violation of any provision of child labor laws, the minor may seek 150% of the wage loss benefits that normally would have been due him or her, with the additional 50%

payment being the responsibility of the employer rather than its insurer.

Report any work-related injuries or illnesses to your supervisor/ employer at once. Your employer is required to report all injuries to its insurance carrier and to file an Employer's Report of Occupational Injury or Disease with the state if you become entitled to wage loss benefits as the result of a work-related injury or disease.

**Resources**

For more information about taxes, Social Security withholding, etc.

[www.irs.gov](http://www.irs.gov)

For more information about Unemployment and Workers' Compensation:

[www.dli.state.pa.us/landi/site/default.asp](http://www.dli.state.pa.us/landi/site/default.asp)

## Form W-4 (2003)

**Purpose.** Complete Form W-4 so that your employer can withhold the correct Federal income tax from your pay. Because your tax situation may change, you may want to refigure your withholding each year.

**Exemption from withholding.** If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2003 expires February 16, 2004. See **Pub. 505**, Tax Withholding and Estimated Tax.

**Note:** You cannot claim exemption from withholding if: (a) your income exceeds \$750 and includes more than \$250 of unearned income (e.g., interest and dividends) and (b) another person can claim you as a dependent on their tax return.

**Basic instructions.** If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized

deductions, certain credits, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply. **However, you may claim fewer (or zero) allowances.**

**Head of household.** Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See line E below.

**Tax credits.** You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See **Pub. 919**, How Do I Adjust My Tax Withholding? for information on converting your other credits into withholding allowances.

**Nonwage income.** If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using

**Form 1040-ES**, Estimated Tax for Individuals. Otherwise, you may owe additional tax.

**Two earners/two jobs.** If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others.

**Nonresident alien.** If you are a nonresident alien, see the **Instructions for Form 8233** before completing this Form W-4.

**Check your withholding.** After your Form W-4 takes effect, use **Pub. 919** to see how the dollar amount you are having withheld compares to your projected total tax for 2003. See **Pub. 919**, especially if your earnings exceed \$125,000 (Single) or \$175,000 (Married).

**Recent name change?** If your name on line 1 differs from that shown on your social security card, call 1-800-772-1213 for a new social security card.

### Personal Allowances Worksheet (Keep for your records.)

<p><b>A</b> Enter "1" for <b>yourself</b> if no one else can claim you as a dependent . . . . . <b>A</b> _____</p> <p><b>B</b> Enter "1" if:               • You are single and have only one job; or               • You are married, have only one job, and your spouse does not work; or               • Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. . . . . <b>B</b> _____</p> <p><b>C</b> Enter "1" for your <b>spouse</b>. But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . . <b>C</b> _____</p> <p><b>D</b> Enter number of <b>dependents</b> (other than your spouse or yourself) you will claim on your tax return . . . . . <b>D</b> _____</p> <p><b>E</b> Enter "1" if you will file as <b>head of household</b> on your tax return (see conditions under <b>Head of household</b> above) . . . . . <b>E</b> _____</p> <p><b>F</b> Enter "1" if you have at least \$1,500 of <b>child or dependent care expenses</b> for which you plan to claim a credit . . . . . <b>F</b> _____</p> <p><b>(Note: Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)</b></p> <p><b>G</b> <b>Child Tax Credit</b> (including additional child tax credit):               • If your total income will be between \$15,000 and \$42,000 (\$20,000 and \$65,000 if married), enter "1" for each eligible child plus 1 additional if you have three to five eligible children or 2 additional if you have six or more eligible children.               • If your total income will be between \$42,000 and \$80,000 (\$65,000 and \$115,000 if married), enter "1" if you have one or two eligible children, "2" if you have three eligible children, "3" if you have four eligible children, or "4" if you have five or more eligible children.               <b>G</b> _____</p> <p><b>H</b> Add lines A through G and enter total here. <b>Note:</b> This may be different from the number of exemptions you claim on your tax return. <b>H</b> _____</p> <p>For accuracy, complete all worksheets that apply.               • If you plan to <b>itemize or claim adjustments to income</b> and want to reduce your withholding, see the <b>Deductions and Adjustments Worksheet</b> on page 2.               • If you have <b>more than one job</b> or are <b>married and you and your spouse both work</b> and the combined earnings from all jobs exceed \$35,000, see the <b>Two-Earner/Two-Job Worksheet</b> on page 2 to avoid having too little tax withheld.               • If <b>neither</b> of the above situations applies, <b>stop here</b> and enter the number from line H on line 5 of Form W-4 below.</p>	<p>----- Cut here and give Form W-4 to your employer. Keep the top part for your records. -----</p>
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<b>Form W-4</b> Department of the Treasury Internal Revenue Service		<b>Employee's Withholding Allowance Certificate</b> ▶ For Privacy Act and Paperwork Reduction Act Notice, see page 2.		OMB No. 1545-0010 <b>2003</b>
<b>1</b> Type or print your first name and middle initial _____ Last name _____		<b>2</b> Your social security number _____		
Home address (number and street or rural route) _____		<b>3</b> <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <b>Note:</b> If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code _____		<b>4</b> If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a new card. <input type="checkbox"/>		
<b>5</b> Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2) _____		<b>5</b> _____		
<b>6</b> Additional amount, if any, you want withheld from each paycheck . . . . .		<b>6</b> \$ _____		
<b>7</b> I claim exemption from withholding for 2003, and I certify that I meet <b>both</b> of the following conditions for exemption: • Last year I had a right to a refund of <b>all</b> Federal income tax withheld because I had <b>no tax liability</b> and • This year I expect a refund of <b>all</b> Federal income tax withheld because I expect to have <b>no tax liability</b> . If you meet both conditions, write "Exempt" here . . . . . ▶		<b>7</b> _____		
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or I am entitled to claim exempt status.				
<b>Employee's signature</b> (Form is not valid unless you sign it.) ▶		<b>Date</b> ▶		
<b>8</b> Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		<b>9</b> Office code (optional) _____	<b>10</b> Employer identification number _____	

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**MODULE 31: STUDENT ACTIVITIES**

TO THE STUDENT: After reading and studying the information sheet, answer the following questions.

1. Define tax withholding:
  
  
  
  
  
2. List three kinds of income that can be taxed:
  - a.
  - b.
  - c.
  
3. List three withholding taxes:
  - a.
  - b.
  - c.
  
4. Although the "W4" may change periodically, the "W4" provided on page 7 is a good example of what you will be required to fill out to determine your withholding tax. Read the directions and complete the certificate.
  
5. List three benefits available through the Social Security Program:
  - a.
  - b.
  - c.
  
6. In a complete paragraph, describe Unemployment Compensation benefits and three qualifications for applying for them.
  
7. In a complete paragraph describe Workers' Compensation benefits.
  
8. True or False    If an injury is intentionally self-inflicted, you can collect damages from your employer.

**MODULE 31: STANDARDS ADDRESSED IN THIS MODULE****Pennsylvania's Academic Standards for Career Education and Work****13.2.11. Career Acquisition (Getting a Job)**

- D. Identify sources of health, safety and regulatory practices and their effect on the work environment.
- Child Labor Laws
  - Employee Right to Know
  - Fair Labor Standards Act
  - Hazardous occupations
  - Material Safety Data Sheets (MSDS) information
  - Occupational Safety and Health Administration (OSHA) regulations
  - Student work permits

**Pennsylvania's Academic Standards for Reading, Writing, Speaking and Listening (RWSL)****1.1.11. Learning to Read Independently**

- E. Establish a reading vocabulary by identifying and correctly using new words acquired through the study of their relationships to other words. Use a dictionary or related reference.

**1.5.11. Quality of Writing**

- F. Edit writing using the conventions of language.
- Spell all words correctly.
  - Use capital letters correctly.
  - Punctuate correctly (periods, exclamation points, question marks, commas, quotation marks, apostrophes, colons, semicolons, parentheses, hyphens, brackets, ellipses).
  - Use nouns, pronouns, verbs, adjectives, adverbs, conjunctions, prepositions and interjections properly.
  - Use complete sentences (simple, compound, complex, declarative, interrogative, exclamatory and imperative).