

CLASS #1

W-2 Earnings, Tax Withholding, and Other Payroll



1. How many have received a W-2 or 1099 in the past two years?

The first-class focus will be on W-2 earnings; what does that mean?

2. What rules determine whether someone should be employed as a W-2 or 1099?

The general rule is that an individual is an independent contractor if the payer has the right to control or direct ONLY the result of the work rather than what will be done and how it will be done.

- **Behavioral:** Does the company have the right to control what the worker does and how and when they do their job?
- **Financial:** Are the business aspects of the worker’s job controlled by the payer?
- **Type of Relationship:** Are there written contracts or employee-type benefits (i.e., pension plan, insurance, vacation pay, etc.)? Will the relationship continue, and is the work performed a vital aspect of the business?

3. What are the tax and insurance implications?

W-2	Withholding Taxes	Employer must deduct from the employee withholding taxes including: <ul style="list-style-type: none"> • FICA ½ of the Social Security Tax = 6.2% and ½ of the Medicare Tax = 1.45%), the employer pays the other half. (In 2024, the tax applies up to a W-2 income of \$168,600) • Federal Income Tax, • State and City Income Tax
W-2	Insurance	Employer must provide: <ul style="list-style-type: none"> • Workers Compensation - no contribution from employee is allowed • Unemployment Insurance – no contribution from employee is allowed • State Disability Insurance – max contribution by employee of 60 cents a week of \$ 31.20 annually. • Paid Family Leave – max contribution by employee of \$333.25 in NYS as of 2024. <p>The premium cost is based on the employee’s compensation, employees job and the Employer’s prior losses. See: https://www.standard.com/eforms/19866.pdf</p>

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1.01- Foundation Segment - Outline (Instructor's Notes)

1099	FICA Taxes	<p>The independent contractor must pay both FICA</p> <ul style="list-style-type: none">• the full of the Social Security Tax = 12.4% up to the ANNUAL limit (In 2024 the tax applies up to a net income of \$168,600)• the full Medicare Tax = 2.9% <p>The IRS class this called Self Employment Taxes</p>
1099	Income Taxes	<p>The independent contractor who is not incorporated, or a single member LLC, reports on Schedule C of their personal tax return their gross income and business expenses to arrive at a NET INCOME.</p> <p>Some independent contractors claim a deduction for home office expenses further reducing their Taxable Income.</p>
1099	QBI	<p>Taxable Business Income may be eligible for Qualified Business Incentive credit</p>
1099	Insurance	<p>Independent Contractors are NOT covered by workers compensation, state disability insurance, unemployment or paid family medical leave.</p> <p>However independent contractors who believe they have been wrongly classified and should have been considered employees, can bring a claim with a labor department. In those cases if the determination is made by the labor department that an employer-employee relationship existed coverage might be granted.</p> <p>See: https://dol.ny.gov/ui-and-independent-contractors-frequently-asked-questions</p>

FICA is an acronym for “Federal Insurance Contributions Act.”

FICA tax is the money taken from workers' paychecks to pay older Americans. It has two parts:

- **OASDI** stands for old age, survivors, and disability insurance tax, but it is commonly called Social Security. It gives older individuals a monthly payment based on their earnings history.

Social Security can be collected at age 62, but if an individual delays taking social security, the amount they ultimately will receive increases by about 8% annually until the person reaches age 70.

- **Medicare** (Hospital Insurance) benefits are available to individuals aged 65 and older and for those deemed disabled.

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4. How does an employer know how much income tax to take from an employee's paycheck?

From the W-4 form which the employee fills out. On the form they list their Marital Status and Number of Dependents. This status, combined with their earnings sets and ESTIMATED rate for taxes. The actual amount due is based on the tax return. (discuss fluctuating incomes)

5. How many paychecks do employees receive annually?

Weekly	52
Bi-Weekly	26
Semi-Monthly	24
Monthly	12

6. What is the difference between the pay period and the pay date? And how does the above relate to the W-2? -

Challenge – if the payroll work week went from 12/24 to 12/30/23 and the pay date was 1/4/2024 – would the earnings be reported on the 2023 W-2 or the 2024 W-2?

7. What is an exempt or non-exempt employee?

Both federal law (Fair Labor Standards Act or FLSA) and state law (New York Minimum Wage Act) require the payment of overtime wages for work performed after 40 hours per week. However, there are exceptions. A person NOT subject to overtime rules is called an EXEMPT employee. To be considered an exempt employee, there is both a DUTY and SALARY test:

- DUTY
 - The Employee's primary duty is performing office or non-manual field work related to management policies or general operations.
 - The Employee customarily and regularly exercises discretion and independent judgment.
 - The Employee regularly and directly assists an employer in a bona fide **executive** or administrative capacity or performs under general supervision work requiring special training, experience, or knowledge.
- EARNINGS –cannot be exempt if they earn less than:

FEDERAL LAW As of	weekly	annual
July 1, 2024	\$844	\$43,888
January 1, 2025	\$1,128	\$58,656

NEW YORK STATE LAW as of 1/1/2024	weekly	annual
New York City, Nassau, Suffolk Westchester	\$1,200	\$ 58,240
New York State other areas	\$1,124.20	\$58,484

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8. Is an employer required to pay for benefits or pay for hours not worked?

Both Federal and State labor laws cover benefits. The more generous provisions will apply.

- **HEALTH INSURANCE –**

While state law doesn't require health insurance, federal law requires employers with 50 or more full-time equivalent employees (FTEs) to provide insurance with minimum essential coverage (MEC).

- **PAID SICK LEAVE, VACATION TIME or PAID TIME OFF**

Governed by STATE law

New York State - Yes, New York State employers must provide paid leave to their employees depending on the number of employees they have:

- 100 or more employees: Must provide up to 56 hours of paid leave per year
- 5–99 employees: Must provide up to 40 hours of paid leave per year
- Four or fewer and a net income of \$1 million must provide 40 hours of paid leave
- Four or fewer and a net income UNDER \$1 million must provide 40 hours of unpaid leave

In New York – there were separate rules for COVID-19, but they are sunseting in 2025.

Florida - As of January 2024, Florida law does not require private employers to provide their employees paid sick leave, vacation, or paid time off. If they do, they can decide how it's accrued and used.

9. What is the difference between Gross Pay and Net Pay? When you discuss your salary with your employer – which do you discuss?

10. Discuss the Term CAFETERIA PLAN – and pre-tax deductions. Review typical benefits

- Health Insurance – including Medical, Dental, and Eyeglasses reimbursement
- Health Savings Accounts – allowing employees to save money to be used for medical expenses NOT covered by their insurance
- Day Care for dependents
- Transit Pass for public transportation
- Group Life Insurance.
- Supplemental Benefits Disability Benefits
- Tuition Reimbursement Program.
- Paid Holidays.
- RETIREMENT PLANS – **called a 401 K** (for employees of profit companies in the private sector) or a 403B (for employees of government and nonprofit agencies)

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1.01- Foundation Segment - Outline (Instructor's Notes)

Most employers offer two types of Retirement Plans: Traditional and Roth.

	Do current year contributions reduce your taxable income?	Does the plan grow tax free, including interest, dividends, capital gains?	Upon Withdrawal are the withdrawals taxed?	Can you borrow from the plan without a penalty?
TRADITIONAL retirement plan	YES	YES	YES	Depends on your plan – this is a decision made by the employer
ROTH retirement plan	NO	YES	NO	Depends on your plan – this is a decision made by the employer

Discuss –

- Which is better – a Traditional or a Roth retirement plan?
- What should guide your decision in which to enroll?
- Can you have both a Traditional and a Roth retirement plan?
- What is a match?
- What is vesting?
- When can a person withdraw their money?
- What happens if a person withdraws their money prematurely?
- What should you do with your 401K or 403B plan balance when you leave an employer?
- Why is the term ROLL OVER so critical?
- Which dictates who gets my 401K or 403B when I die, my Will or my beneficiary?
- What happens if you inherited an IRA

HANDOUT 1.25 Questions to ask a prospective W-2 Employer regarding compensation, benefits, and advancement.

Review the paycheck – stub.

Review W-2 form –

- Emphasize the difference between Federal Wages (box 1), Social Security Wages, and Medicare Wage (Box 3 & Box 5)
- Discuss State tax rules.

1.91a HOMEWORK – to be emailed includes several items, including **EXERCISE 1.11a Prepare Maria's W-2**

CLASS #1 ENDS