

Section 2.3: Graduated Income Tax

Objective: Determine state taxes on a graduated income tax basis.

Some states have a graduated income tax, which ~~is~~ *increases the tax rate at different levels of income. The tax increases as the income increases.*

Tax withheld per pay period:

$$\text{Taxes withheld per pay period} = \frac{\text{Annual Tax Withheld}}{\text{\# of pay periods per year}}$$

Review:

# of Pay Periods per Year	Pay Period
12	Monthly
24	Semi-monthly
52	Weekly
26	Biweekly

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%
Exemptions	
Single	\$2,000
Married	\$4,000
Each Dependent	\$2,000

1) Louis Main's annual salary as a police officer is \$34,500. She receives her pay semimonthly, or twice a month. Her exemptions total \$2,000. Use Figure 2.3 to determine how much her employer deducts for state income tax from each of her semimonthly paychecks.

① \$2,000 exemption amt.

② $34,500 - 2,000 = 32,500$ taxable wages

③ $1,000 (.015) = \$15$

$2,000 (0.03) = \$60$

$2,000 (0.045) = \$90$

$(32,500 - 5,000)(0.05) = \$1,375$

$15 + 60 + 90 + 1,375 = \$1,540$ annual SIT

④ $\frac{1,540}{24} = \$64.17$ semi-monthly SIT

2) Louis got a raise and her annual salary is now \$42,600. She also had another child so that her exemptions total \$4,000. Also, she is paid monthly now. Use Figure 2.3 to determine how much her employer should deduct for 'SIT' from each paycheck.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%
Exemptions	
Single	\$2,000
Married	\$4,000
Each Dependent	\$2,000

① \$4,000 exemption amt.

② $42,600 - 4,000 = \$38,600$ taxable wages

③ $1,000 (0.015) = \$15$

$2,000 (0.03) = \$60$

$2,000 (0.045) = \$90$

$(38,600 - 5,000)(0.05) = \$1,680$

$15 + 60 + 90 + 1,680 = \$1,845$ annual SIT

④ $\frac{1,845}{12} = \$153.75$ monthly SIT

3) Lydia Robin's annual salary from Dresler & Everhard is \$67,500. She is married, has one dependent and is paid monthly. Use figure 2.3 to find the tax withheld per pay period.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%
Exemptions	
Single	\$2,000
Married	\$4,000
Each Dependent	\$2,000

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4) Eddie Black is single and receives his pay biweekly, or every 2 weeks. His annual salary as a tailor for Whyte and Broom is \$21,350. Use figure 2.3 to find the tax withheld per pay period.

Examples:

Figure 2.3

State Tax	
Taxable Wages	Tax Rate
First \$1,000	1.5%
Next \$2,000	3.0%
Next \$2,000	4.5%
Over \$5,000	5.0%
Exemptions	
Single	\$2,000
Married	\$4,000
Each Dependent	\$2,000

① 2000 exemptions

② $21,350 - 2000 = \$19,350$ taxable wages

③ $1000 (.015) = \$15$

$2000 (.03) = \$60$

$2000 (.045) = \$90$

$(19350 - 5000) (.05) = \$717.50$

$15 + 60 + 90 + 717.50 = \882.50 annual SIT

④ $\frac{882.50}{26} = \$33.94$ bi-weekly SIT

5) Annie works as a dental assistant and has an annual gross pay of \$26,470. Her exemptions total \$2,200. The state tax on the first \$4500 is 1.8% and on amounts over \$4500 is 3.1%.

a) Find the state tax withheld.

$$\begin{aligned} \textcircled{1} & \$2,200 \text{ exemption amt.} \\ \textcircled{2} & 26,470 - 2,200 = \$24,270 \text{ taxable wages} \\ \textcircled{3} & 4500(0.018) = \$81 \\ & (24,270 - 4500)(0.031) = \$612.87 \\ & 81 + 612.87 = \$693.87 \text{ annual SIT} \end{aligned}$$

b) If she gets paid weekly, how much 'SIT' is withheld from each paycheck?

$$\frac{693.87}{52} = \$13.34 \text{ weekly SIT}$$

Assignment:

p. 136 #3-6, 8-12 (#7 bonus) MUST SHOW ALL WORK!!!