

A Taxing Question



Susanna has been a baby-sitter since she was thirteen, so she knows a little bit about working for an hourly fee. Whenever she looks after the Kozinsky twins, she earns \$5 an hour—in cash. The cash goes into her wallet, the wallet goes into her pocketbook, and her pocketbook goes with her to the mall.

Now that she's fifteen, though, she's decided it's time for a real after-school job. She's saving for a car and a prom dress—and she's planning to help pay for college. So she's thrilled when her mother helps her land a job as a part-time receptionist at the Smith Corporation. She'll be making \$7 an hour, working 15 hours a week. At that rate, she figures, she'll be making \$420 a month—

approximately \$5,000 a year! In just one year, she can buy a \$4,000 car and a \$250 dress—and still have plenty of money left over to save.

After two weeks, her boss hands her an envelope, telling her “Congratulations! It's your first payday!” Susanna opens her envelope. Instead of the \$210 in cash that she expected to find, she discovers a piece of paper. It's her very first paycheck.

Susanna takes the check back to her boss, and asks to know what happened to her money. She tells him that she was expecting a lot more—and she was expecting it in cash! Her boss sits down with her and goes over the pay stub. Here's what he explains:

Deduction (% of Total Earnings)	Purpose
Federal Taxes	This money goes to the United States government to help pay for many important government programs.
State and Local Taxes	This money goes to your state government to help pay for local government programs, including state education, highways, and police.
Social Security	Sometimes abbreviated as FICA (Federal Insurance Contributions Act), this money is set aside for retirement benefits.
Medicare	This money helps pay for government health insurance programs for people over the age of sixty-five.

Smith Corporation 100 Elm Street Detroit, Michigan	Employee: Susanna Fernandez id: 801 SS# 000-00-0000	Check #: 1870 Ch. Date: 9-27-04 From: 9-20-04 to 9-27-04
Pay Rate: \$7 per hour		
HOURS AND EARNINGS	Base Rate Earnings	Hours
Regular Earnings	210.00	30
Earnings to Date	210.00	30
TAXES	Current	Year to Date
Fed. Withholding	29.46	29.46
Fed. FICA	15.04	15.04
MI Withholding*	8.25	8.25
Detroit local taxes	.53	.53
*Michigan and Detroit, Michigan, state and local taxes. State and local taxes vary by state and country.		
Smith Corporation 100 Elm Street • Detroit, Michigan 555-555-1111	LOCAL BANK DOWNTOWN BRANCH Detroit, MI 48226	00-00 0000
Pay One Hundred Fifty-Six Dollars and 72 Cents		1870
TO THE ORDER OF	DATE Sept 27, 2004	CHECK NO. 1870
Susanna Fernandez 12 Any Road Detroit, MI 48226		156.72
	Smith Corporation	
	<i>Jane Employer</i>	

“Do they take all these deductions out of your paycheck too?” Susanna asks her boss. Her boss smiles and nods. “So... wouldn't it be better to do everything in cash? Just hand people what they've earned—instead of dealing with checks and deductions?”

“We use checks because we handle all our business finances through a bank,” her boss explains. “And we pay taxes because... well, first, the law says we have to. But there's another reason. Paying taxes means you're a productive member of American society. It means your hard work is helping to pay for everything our government manages and produces.”

“I've never dealt with a bank,” Susanna says. “Do I have to?”

“Well... only if you plan to cash or deposit that check!” replies her boss. “Unless you plan to hang that check on your wall, I think it's time you consider opening an account!”