

CHAPTER 8 The Legal Environment

SOFTWARE ACTIVITY

Spreadsheet Application

OBJECTIVE: Calculate taxes that will be withheld from an employee's pay.

Entrepreneurs must deduct certain payroll taxes from each employee's earnings. Employers are also required to contribute an equal amount to that deducted from each employee's paycheck. This would include the FICA (Federal Insurance Contribution Act), or social security tax, as well as federal income taxes. In many states, employers must also deduct state income taxes. All of these taxes are based on a percentage of an employee's gross pay.

Practice Situation

The printout below shows the pay information for employees that work for your firm. The hourly wage and the number of hours worked by each employee are given. Calculate the amount that you should withhold from each employee's paycheck for FICA, federal and state income taxes. Tax rates are as follows:

FICA Tax Rate—7.65%

State Tax Rate—4.5%

Federal Tax Rate—18.0%

Employee	Hourly Wage	Number of Hours Worked	Gross Pay	FICA Taxes	State Taxes	Federal Taxes	Total Deductions
1	\$7.25	40					
2	\$6.00	40					
3	\$7.75	35					
4	\$7.25	37					

Spreadsheet Directions

1. Start your spreadsheet software program.
2. Recreate the table above using your spreadsheet program.
3. Enter the formulas for the first employee to calculate each of the following:
Gross Pay (Hourly wages multiplied by number of hours worked)
FICA taxes
State taxes
Federal taxes
Total deductions (Add FICA, state, and federal taxes)
Net Pay (Total deductions subtracted from Gross Pay)
Copy these formulas to appropriate cells in all remaining rows.
4. After completing your calculations, save your work.
5. Print out a copy of your work if your teacher has instructed you to do so. Then answer the following questions.

Interpreting Results

1. What is the net pay for each of the following employees?
Net pay is as follows—

1. _____ 3. _____
2. _____ 4. _____

2. Which employee has the highest net pay? The lowest?

Drawing Conclusions

3. Why are employers responsible for withholding FICA, state, and federal income taxes rather than having each employee pay these taxes at the end of the year?

4. Should federal and state governments reimburse business owners for collecting these taxes for them?

