

## Unit 1

# *Managing Money*

The first eight lessons in this book cover the kind of financial situations consumers face nearly every day. The lessons include details about earning, banking, eating, shopping, repairing a home, and trying to save money.

Pay close attention to the boldfaced vocabulary in each lesson to learn the terms and phrases that are commonly used in the consumer's world.

# Lesson 1: Income

## Pre-Lesson Vocabulary Practice

Read the words and their meanings on the right. Next find them in the beginning of the lesson. Then carefully read the lesson material.

Use the boldfaced words on the right to complete the sentences below.

- 1 John makes a \_\_\_\_\_ of \$18.55 an hour as a cook.
- 2 The amount a worker earns before any \_\_\_\_\_ are subtracted from his income is called gross pay.
- 3 Nathaniel works as a technician in a research lab. His \_\_\_\_\_ is \$44,720.
- 4 Employers \_\_\_\_\_ certain amounts of money from employees' paychecks.
- 5 The \_\_\_\_\_ rate is often  $1\frac{1}{2}$  times a worker's regular hourly wage.
- 6 Patricia works as a legal assistant. Her gross weekly \_\_\_\_\_ is \$788.40.

**income** – an amount of money a person receives or earns, usually from working at a job

**wage** – income per hour, day, or year

**yearly salary** – income per year

**overtime** – extra, more than the regular amount of time worked

**withhold** – to take from, to subtract

**deductions** – amounts taken or subtracted from another amount

Below is a list of words that appear throughout the lesson. Read each word and its definition. Then work with a partner to use the words in a sentence.

**Social Security deductions** – money subtracted from income and paid out when one retires

**Medicare payments** – income deductions used to pay for medical care at the age of 65 and beyond

**federal income tax** – an income deduction, money paid the federal government for its operation

**state income tax** – a possible income deduction, money paid the state government for its operation

**union** – an organization that supports workers and helps to protect their rights

**paycheck** – the paper a bank uses to show payment of a worker's wage or salary

**rate** – a specific amount

**$1\frac{1}{2}$  times** – one and a half

**% of** – percent of or a part of

**by law** – according to what is legal

**Internal Revenue Service (IRS)** – the branch of the federal government that collects taxes

**guidelines** – help, information

Answers are on page 254.



## Lesson 1

# Income

Most people who get paid for their work earn an hourly wage or a yearly salary. The amount a worker earns before any deductions are subtracted from his income is called gross pay. The typical workweek in the United States is five 8-hour days, or 40 hours.

**Example 1** John makes a wage of \$18.55 an hour as a cook. What is his gross weekly income for a 40-hour week?

**Solution** Multiply John's hourly wage by the number of hours he works each week.

$$\$18.55 \times 40 = \$742.00$$

**Example 2** Sara is a high school Spanish teacher. Her yearly salary is \$36,575. Find her weekly gross salary.

**Solution** Assume that a year has 52 weeks. Divide Sara's salary by 52.

$$\$36,575 \div 52 = \$703.365\dots \text{ or } \$703.37$$

Wage earners are usually paid a higher hourly rate if they work more than the normal 40-hour week. The overtime rate is often  $1\frac{1}{2}$  times a worker's regular hourly wage.

**Example 3** John, the cook in the first example, earns one and one-half times his regular wage when he works more than 40 hours in one week. How much did John make in overtime wages in a week when he worked 46 hours?

**Solution** John worked  $46 - 40 = 6$  hours of overtime. Multiply to find John's overtime wages.

$$6 \times 1.5 \times \$18.55 = \$166.95$$

Employers subtract or **withhold** certain amounts of money from an employee's paycheck. These **deductions** may include Social Security, Medicare payments, federal income tax, state income tax, contributions to retirement programs, union dues, and charitable contributions. The tables on page 15 are used to calculate how much money is withheld.

According to the Federal Insurance Contributions Act, or F.I.C.A., 12.4% of every employee's income, up to an annual limit, must be contributed to **Social Security**, and 2.9% of the income must be contributed to **Medicare**. The total is  $12.4\% + 2.9\% = 15.3\%$  of an employee's income. By law, the employer pays half of this amount, and the employee pays the other half:  $15.3\% \div 2 = 7.65\%$ .

**Example 4** For John, the cook in the first example, how much is withheld from his weekly check for Social Security and Medicare (F.I.C.A.) if he works 40 hours?

**Solution** Find 7.65% of \$742.  
 $0.0765 \times \$742 = \$56.763$  or \$56.76

**Example 5** The state tax where Ricardo ate lunch is 4.5%. What was the tax on his lunch if his bill was \$13.15?

**Solution** Find 4.5% of \$13.15.  
 $0.045 \times \$13.15 = \$0.59175$  or \$0.59

**Example 6** How much income tax is withheld each week from a married person whose wages are \$836 if the worker claims five withholding allowances?

**Solution** Look at the second table on page 15. \$836 is between \$830 and \$840. The amount of income tax that is withheld with five withholding allowances is \$44.



The amount a worker makes after deductions are subtracted from his gross pay is called his **net pay**. The net pay is the amount a worker takes home.

**Example 7** John, the cook Example 1, is married, and he claimed three withholding allowances on his W-4 form. Find John's net weekly income for a 40-hour week if his employer deducts F.I.C.A., federal income tax, and \$25 for John's retirement account.

**Solution**  $F.I.C.A. = 0.0765 \times \$742 = \$56.763$  or \$56.76  
 \$742 is between \$740 and \$750. With three withholding allowances, the income tax withheld is \$48.  
 Total deductions =  $\$56.76 + \$48 + \$25 = \$129.76$   
 Net pay =  $\$742.00 - \$129.76 = \$612.24$

<b>Earnings</b>	<b>rate</b>	<b>hours</b>	<b>this period</b>
Regular	\$18.55	40.00	742.00
Overtime	---	---	---
<b>Gross Pay</b>			<b>\$742.00</b>
<b>Deductions</b>			
	F.I.C.A.		-56.76
	Income Tax		-48.00
	Retirement Contribution		-25.00
<b>Net Pay</b>			<b>\$612.24</b>

Some people who sell things for a living receive a **commission** rather than a wage or a salary. A commission is a percent of total sales.

**Example 8** Charlie sells cars at a commission rate of 4.5%. What was his gross monthly income if he sold cars for a total value of \$35,603.90 this month?

**Solution** Find 4.5% of \$35,603.90.  
 $4.5\% = 0.045$   
 $0.045 \times \$35,603.90 = \$1,602.1755$  or \$1,602.18

### SINGLE Persons—WEEKLY Payroll Period

(For Wages Paid Through December 2004)

If the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of income tax to be withheld is—												
\$600	\$610	\$78	\$67	\$58	\$50	\$41	\$32	\$23	\$14	\$8	\$2	\$0
610	620	80	69	60	51	42	33	24	15	9	3	0
620	630	83	70	61	53	44	35	26	17	10	4	0
630	640	85	72	63	54	45	36	27	18	11	5	0
640	650	88	75	64	56	47	38	29	20	12	6	0
650	660	90	75	66	57	48	39	30	21	13	7	1
660	670	93	78	67	59	50	41	32	23	14	8	2
670	680	95	80	69	60	51	42	33	24	15	9	3
680	690	98	83	70	62	53	44	35	26	17	10	4
690	700	100	85	72	63	54	45	36	27	18	11	5
700	710	103	88	73	65	56	47	38	29	20	12	6
710	720	105	90	75	66	57	48	39	30	21	13	7
720	730	108	93	78	68	59	50	41	32	23	14	8
730	740	110	95	80	69	60	51	42	33	24	15	9
740	750	113	98	83	71	62	53	44	35	26	17	10
750	760	115	100	85	72	63	54	45	36	27	18	11
760	770	118	103	88	74	65	56	47	38	29	20	12
770	780	120	105	90	75	66	57	48	39	30	21	13
780	790	123	108	93	78	68	59	50	41	32	23	14
790	800	125	110	95	80	69	60	51	42	33	24	15
800	810	128	113	98	83	71	62	53	44	35	26	17
810	820	130	115	100	85	72	63	54	45	36	27	18
820	830	133	118	103	88	74	65	56	47	38	29	20
830	840	135	120	105	90	75	66	57	48	39	30	21
840	850	138	123	108	93	78	68	59	50	41	32	23
850	860	140	125	110	95	80	69	60	51	42	33	24
860	870	143	128	113	98	83	71	62	53	44	35	26
870	880	145	130	115	100	85	72	63	54	45	36	27
880	890	148	133	118	103	88	74	65	56	47	38	29
890	900	150	135	120	105	90	76	66	57	48	39	30

### MARRIED Persons—WEEKLY Payroll Period

(For Wages Paid Through December 2004)

If the wages are—		And the number of withholding allowances claimed is—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10
The amount of income tax to be withheld is—												
\$740	\$750	\$75	\$66	\$57	\$48	\$39	\$30	\$23	\$17	\$11	\$5	\$0
750	760	76	67	59	50	41	32	24	18	12	6	1
760	770	78	69	60	51	42	33	25	19	13	7	2
770	780	79	70	62	53	44	35	26	20	14	8	3
780	790	81	72	63	54	45	36	27	21	15	9	4
790	800	82	73	65	56	47	38	29	22	16	10	5
800	810	84	75	66	57	48	39	30	23	17	11	6
810	820	85	76	68	59	50	41	32	24	18	12	7
820	830	87	78	69	60	51	42	33	25	19	13	8
830	840	88	79	71	62	53	44	35	26	20	14	9
840	850	90	81	72	63	54	45	36	27	21	15	10
850	860	91	82	74	65	56	47	38	29	22	16	11
860	870	93	84	75	66	57	48	39	30	23	17	12
870	880	94	85	77	68	59	50	41	32	24	18	13
880	890	96	87	78	69	60	51	42	33	25	19	14
890	900	97	88	80	71	62	53	44	35	26	20	15
900	910	99	90	81	72	63	54	45	36	27	21	16
910	920	100	91	83	74	65	56	47	38	29	22	17
920	930	102	93	84	75	66	57	48	39	30	23	18
930	940	103	94	86	77	68	59	50	41	32	24	19
940	950	105	96	87	78	69	60	51	42	33	25	20
950	960	106	97	89	80	71	62	53	44	35	26	21
960	970	108	99	90	81	72	63	54	45	36	27	22
970	980	109	100	92	83	74	65	56	47	38	29	23
980	990	111	102	93	84	75	66	57	48	39	30	24
990	1,000	112	103	95	86	77	68	59	50	41	32	25
1,000	1,010	114	105	96	87	78	69	60	51	42	33	26
1,010	1,020	115	106	98	89	80	71	62	53	44	35	27
1,020	1,030	117	108	99	90	81	72	63	54	45	36	28
1,030	1,040	118	109	101	92	83	74	65	56	47	38	29

To solve the problems in the next exercise, review:

- multiplying decimals, page 231
- finding a percent of a number, page 236

# Exercise 1

## Part A

Use a calculator to solve the problems in this exercise. Use the two income tax withholding tables on page 15 when you need them. Remember that an employee's F.I.C.A. contribution is 7.65% of gross income.

- ① Simon works as a security guard and makes \$12.80 an hour. What is his gross weekly income for a 40-hour week?
- ② Elena is a cashier in a convenience store. She makes \$8.25 an hour for the first 40 hours and one and a half times her regular wage for overtime work. Find her gross weekly salary if she works 47 hours.
- ③ Nathaniel works as a technician in a research lab. His yearly salary is \$44,720. What is his gross weekly salary?
- ④ Charlene works in a store that sells books and CDs. She gets a commission of 5% on all sales. What is her commission in a month when she sold books and CDs for a total of \$21,518?
- ⑤ Myrna works as a housekeeper in a large hotel. For a 35-hour week she makes a gross salary of \$477.75. What is her hourly wage?
- ⑥ David makes \$17.90 an hour installing drywall. Calculate the amount of F.I.C.A. he has to contribute in a week when he works 35 hours.
- ⑦ Patricia works as a legal assistant. Her gross weekly income is \$788.40. According to the tax withholding tables on page 15, how much federal income tax is withheld from her check each week if she is single and claims four withholding allowances?
- ⑧ Sam is also a legal assistant, and he too makes \$788.40 a week. How much federal income tax is withheld from his check each week if he is married and claims three withholding allowances?
- ⑨ Eve is a real estate agent. She earns a commission of 6% on every sale. What was her commission on a house that sold for \$159,500?
- ⑩ Jorge works as a car salesman. He gets a commission of 3.5% on used cars and 5.4% on new cars. What was his commission for a month when he sold used cars for a total of \$16,583 and new cars for a total of \$34,792?