

# 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                     |           |            |             |               |                  |
|          |             |                        |           |            |             |               |                  |