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### Case Study Summary

**Description:** In this Case Study, students learn about a teen worker and her first job. She has been told that if she files a tax return, she will be eligible for a tax refund. But, her parents disagree and won't let her file. Will she be able to convince them and claim her refund? The plot thickens...

**Internet Usage:** Yes

### National Standards for Personal Finance Education

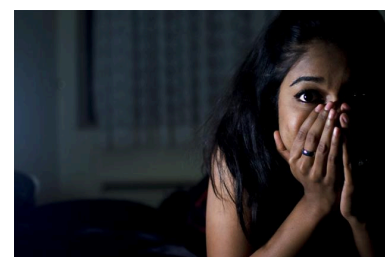
#### Earning Income

- 6b: Identify which level(s) of government typically receive(s) the tax revenue for income taxes, payroll taxes, property taxes, and sales taxes
- 7c: Differentiate between gross, net, and taxable income
- 9a: Complete IRS Form W-4

## W-2, W-4, Refunds, Oh My!

### Late January, 2024

Susan is terrified. She just received Form W-2 in the mail from her employer, Eat Well Grocery. She paid hundreds of dollars in federal and state income taxes. Her friend Ren said she might be able to get it all back if she files a tax return. She saw on TikTok that she is required by law to file a tax return. However, her parents are telling her that she is not allowed to file her own tax return because they are claiming her as a dependent. Do her parents really want her to break the law? What is she supposed to do? Let's start from the beginning...



### Let's go back in time... Early February, 2023

Susan and Ren are both sixteen-year-old high school students, next-door neighbors, and lifelong friends. They both just got their first jobs bagging groceries at the local supermarket, Eat Well Grocery.

On the first day of work, Susan and Ren each filled out the standard stack of new employee paperwork, including tax forms. Susan wasn't sure how to complete the Federal Form W-4. The grocery store manager recommended she fill it out as pictured below:



## Exhibit 1 - Susan's W-4

Form <b>W-4</b> Department of the Treasury Internal Revenue Service	<b>Employee's Withholding Certificate</b> Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Give Form W-4 to your employer. Your withholding is subject to review by the IRS.		OMB No. 1545-0074  <div style="font-size: 2em; font-weight: bold;">2023</div>
<b>Step 1:</b> <b>Enter Personal Information</b>	(a) First name and middle initial SUSAN W		(b) Social security number 123-45-6789
	Address 123 COOL STREET		Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to <a href="http://www.ssa.gov">www.ssa.gov</a> .
	City or town, state, and ZIP code SOMECITY, OH 12345		
	(c) <input checked="" type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly or Qualifying surviving spouse <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)		
Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, other details, and privacy.			
<b>Step 2:</b> <b>Multiple Jobs or Spouse Works</b>	Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs. Do only one of the following. (a) Reserved for future use. (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below; or (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is generally more accurate than (b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, (b) is more accurate <span style="float: right;"><input type="checkbox"/></span>  <b>TIP:</b> If you have self-employment income, see page 2.		
Complete Steps 3-4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3-4(b) on the Form W-4 for the highest paying job.)			
<b>Step 3:</b> <b>Claim Dependent and Other Credits</b>	If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly): Multiply the number of qualifying children under age 17 by \$2,000 \$ _____ Multiply the number of other dependents by \$500 . . . . . \$ _____ Add the amounts above for qualifying children and other dependents. You may add to this the amount of any other credits. Enter the total here . . . . .		3 \$
<b>Step 4 (optional):</b> <b>Other Adjustments</b>	(a) <b>Other income (not from jobs).</b> If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . .		4(a) \$
	(b) <b>Deductions.</b> If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . .		4(b) \$
	(c) <b>Extra withholding.</b> Enter any additional tax you want withheld each pay period . .		4(c) \$
<b>Step 5:</b> <b>Sign Here</b>	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete. <div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="width: 60%;"> <i>Susan Page</i>            Employee's signature (This form is not valid unless you sign it.)         </div> <div style="width: 35%; text-align: right;"> <div style="font-size: 1.5em;">02/01/23</div>            Date         </div> </div>		
<b>Employers Only</b>	Employer's name and address	First date of employment	Employer identification number (EIN)
For Privacy Act and Paperwork Reduction Act Notice, see page 3. <span style="float: right;">Cat. No. 10220Q Form <b>W-4</b> (2023)</span>			

Meanwhile, Ren spoke to his father before going to work. His father encouraged Ren to fill out Form W-4 as he did below. Ren had to review the IRS glossary to understand the term “Exempt.”<sup>1</sup>

**Exempt (from withholding)**

*Free from withholding of federal income tax. A person must meet certain income, tax liability, and dependency criteria. This does not exempt a person from other kinds of tax withholding, such as the Social Security tax.*

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<sup>1</sup> <https://apps.irs.gov/app/understandingTaxes/student/glossary.jsp>

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<b>Step 1:</b> <b>Enter Personal Information</b>	(a) First name and middle initial <b>REN H</b> Address <b>345 COOL STREET</b> City or town, state, and ZIP code <b>SOMECITY, OH 12345</b>	Last name <b>NAKAMURA</b>	(b) Social security number <b>987-65-4321</b>  Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to <a href="http://www.ssa.gov">www.ssa.gov</a> .	
	(c) <input checked="" type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly or Qualifying surviving spouse <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)			
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	(b) <b>Deductions.</b> If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . .			<b>4(b)</b> \$
	(c) <b>Extra withholding.</b> Enter any additional tax you want withheld each pay period . .			<b>4(c)</b> \$
<i>Exempt</i>				
<b>Step 5:</b> <b>Sign Here</b>	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete. <div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="width: 60%;"> <b>Ren Nakamura</b>            Employee's signature (This form is not valid unless you sign it.)         </div> <div style="width: 35%; text-align: right;"> <b>02/01/23</b>            Date         </div> </div>			
<b>Employers Only</b>	Employer's name and address	First date of employment	Employer identification number (EIN)	
For Privacy Act and Paperwork Reduction Act Notice, see page 3. <span style="float: right;">Cat. No. 10220Q Form <b>W-4</b> (2023)</span>				

Answer This:

1. In reviewing the “fine print” of Form W-4 and the definition for Exempt, what three questions could Ren have asked his father to increase his understanding of his tax situation?
2. Who do you believe will receive more in net pay each paycheck, Susan or Ren? Why?

Later that day Susan asked Ren about the tax paperwork they both completed. After Ren explained what he did, Susan was totally confused. Here’s the conversation that followed:

**Ren:** My dad said that because this is only a part-time job I won’t earn enough money this year to pay taxes. Besides, he also said that since we are currently students, we don’t have to pay any taxes anyway. That’s why I wrote EXEMPT on the W-4.

**Susan:** Oh really, my mom is always complaining that she’s paid Social Security tax since she started working at 16 and that she might never see a dime of it. Do you know what the salary cut-off is so you don’t have to pay taxes? How much do we need to earn before we need to start paying taxes?

**Ren:** I think it’s not until we’re full-time and earning about \$25,000 that it matters.

Susan did a little digging and found [this reference document from NGPF](#). She started to make a list of items she would need to discuss with Ren the next day.


**Answer This:**

3. After reading the reference document, what are three facts that Susan needs to tell Ren to clear up his misconceptions about taxes?

## Back to Late January, 2024

Let's revisit our story now and see the W-2 that turned Susan's life upside down. When the Form W-2 comes in the mail from Eat Well Grocery, Susan sees lots of boxes, numbers and terminology she needs to analyze.

### Exhibit 3 - Susan's W-2

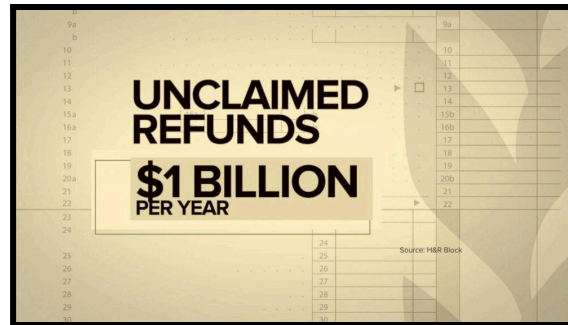
a Employee's social security number 123-45-6789		OMB No. 1545-0008		Safe, accurate, FAST! Use		 Visit the IRS website at www.irs.gov/efile	
b Employer Identification Number (EIN) 55-1111111		1 Wages, tips, other compensation \$7,000.00		2 Federal income tax withheld \$320.00			
c Employer's name, address, and ZIP code  EAT WELL GROCERY 12345 AWESOME STREET SOMECITY, OH 12345		3 Social security wages \$7,000.00		4 Social security tax withheld \$434.00			
		5 Medicare wages and tips \$7,000.00		6 Medicare tax withheld \$101.50			
		7 Social security tips		8 Allocated tips			
		9 Verification Code		10 Dependent care benefits			
d Employee's social security number		11 Nonqualified plans		12a See instructions for box 12 C o d e			
e Employee's first name and initial      Last name      Suff.        SUSAN W PAGE 123 COOL STREET SOMECITY, OH 12345		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b C o d e			
		14 Other		12c C o d e			
				12d C o d e			
f Employee's address and ZIP code							
15 State      Employer's State ID number OH      55-22222222-11	16 State wages, tips, etc. \$7,000.00	17 State income tax \$48.40	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		
<b>Form W-2 Wage and Tax Statement</b>		<b>2023</b>		Department of the Treasury - IRS			

#### Answer This:

4. Why is the Form W-2 needed in order to file a tax return?
5. What is the income number that Susan will likely list on her tax return?
6. Which of the taxes listed on her Form W-2 do you think Susan might be able to "get back?"

Susan wonders what she should do with this W-2. She was a little upset at the large amount that was taken out in taxes, especially after Ren had bragged all year about how he avoided paying federal income taxes. Susan recalls reading previously that she can possibly qualify for a refund, and she'd recently seen this graphic that piqued her interest even more:

**Exhibit 4 - Graphic**



**Susan:** Mom, can we have a quick conversation about taxes?

**Mom:** Sure, what's on your mind?

**Susan:** I got my W-2 from Eat Well today, and I think I might be eligible for a refund. Did you know that I paid over \$300 in federal income tax last year? I'm going to file a 1040 to get my money back!

**Mom:** I don't think that's a good idea!

**Susan:** Why not?

**Mom:** Well, it gets complicated but the short answer is that if you file a tax return, you may get YOUR refund but then your dad and I won't be able to claim you as a dependent and we will have to pay a lot more in taxes. I don't want that. Don't file the return.

**Susan:** What's a dependent?

**Mom:** Let's continue this conversation later; I have to get some emails out for work now.

Susan is a bit confused but remembers that she saw something about this in the NGPF reference document she read earlier. She pulls out the [reference document](#) again and starts reading.

**Answer This:**

7. What should Susan's three main talking points be to convince her Mom that she should file her own tax return?

Susan successfully presents her findings to her Mom! Even so, her Mom still questions whether it is worth the time or the expense for Susan to file a tax return. Her parents typically hire a tax professional to file their tax return, and they say they will not pay for Susan's tax return to be filed.



Now Susan has to figure out what to do given this additional hurdle. Once again, her good friend, the internet, comes to her rescue as she uncovered this [IRS link regarding Free File](#).

**Answer This:**

8. Does Susan qualify to receive free tax filing software? If so, how?
  
9. Create a detailed step-by-step checklist for Susan so she can file her tax return for FREE:



**Susan in a better place**

Susan is making progress and now starts to wonder about the size of her refund. She comes across this federal tax brackets table for the 2023 tax filing year and does some quick calculations:

## Exhibit 5 - Federal Tax Brackets

Taxable income	Taxes owed
\$11,000 or less	10% of the taxable income
\$11,001 to \$44,725	\$1,100 plus 12% of amount over \$11,000
\$44,726 to \$95,375	\$5,147 plus 22% of amount over \$44,725
\$95,376 to \$182,100	\$16,290 plus 24% of amount over \$95,375
\$182,101 to \$231,250	\$37,104 plus 32% of amount over \$182,100
\$231,251 to \$578,125	\$52,832 plus 35% of amount over \$231,250
\$578,126 or more	\$174,238.25 plus 37% of amount over \$578,125

### Answer This:

10. What would you estimate Susan's federal tax to be based on her income of \$7,000 and the tax rate above?
11. In reviewing her W-2, did Susan pay more or less in federal taxes than your estimate in question #10?

WHAT?!?! Susan is expecting a refund, but this calculation makes it seem that she actually OWES more money. How can this be true??? Susan takes a few deep breaths and then remembers that the [NGPF reference document](#) had stated the following:

If you can be claimed as a dependent by another taxpayer, your standard deduction for 2023 is limited to the greater of:

- \$1,250, or
- Your earned income plus \$400 (but the total can't be more than the basic standard deduction for your filing status).

Susan thinks she needs to figure out her standard deduction.

**Answer This:**

12. Using her wages from the W-2 and the information included in the reference document, how much is Susan's standard deduction?
13. Because her standard deduction is greater than the amount she made, it turns out that Susan never owed taxes. How large of a refund should she expect from the Federal government if she follows through on filing her 1040 form?
14. If Ren worked the same shifts as Susan and had the same income of \$7,000 last year, will he also need to file a tax return? Support your response.
15. Who do you believe made a better decision when they completed Form W-4, Ren or Susan? Support your response.