

[RETIRED] NGPF Case Study Taxes

Spanish version

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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:

Form W-4	l I	Employee's	Withholding Certifi	cate	L	OMB No. 1545-0074	
Form	Complete Form W-4 so that your employer can withhold the correct federal income tax from your					0000	
Department of the Treasury						20 23	
Internal Revenue Service					(b) So	ocial security number	
Step 1:		AN W	PAGE		,.,	123-45-6789	
Enter	Addre	955				your name match the	
Personal Information	123 (COOL STREET				on your social security If not, to ensure you get	
mormation						credit for your earnings, contact SSA at 800-772-1213	
		ECITY, OH 12345			or go t	o www.ssa.gov.	
	(c) Single or Married filing separately						
	Married filing jointly or Qualifying surviving spouse 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.)						
		4 ONLY if they apply to you; otherwise m withholding, other details, and privace		2 for more informatio	n on e	ach step, who can	
Step 2: Multiple Job	e	Complete this step if you (1) hold mor also works. The correct amount of wi					
or Spouse		Do only one of the following.					
Works		(a) Reserved for future use.					
		(b) Use the Multiple Jobs Worksheet	on page 3 and enter the resu	It 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					
TIP: If you have self-employment income, see page 2.							
		4(b) on Form W-4 for only ONE of the you complete Steps 3-4(b) on the Form			s. (You	ur withholding will	
Step 3:		If your total income will be \$200,000		0,7			
Claim Dependent		Multiply the number of qualifying of	children under age 17 by \$2,0	00 \$.		
and Other		Multiply the number of other depe	endents by \$500	. \$			
Credits		Add the amounts above for qualifying this the amount of any other credits.		ents. You may add to	3	\$	
Step 4		(a) Other income (not from jobs).					
(optional):		expect this year that won't have we This may include interest, dividence		of other income here.	4(a)	e	
Other							
Adjustments	8	(b) Deductions. If you expect to claim					
		want to reduce your withholding, u	use the Deductions Workshee	t on page 3 and enter	4(b)	e	
		the result here			4(0)		
		(c) Extra withholding. Enter any add	tional tax you want withheld e	each pay period	4(c)	\$	
Step 5:	Unde	er penalties of perjury, I declare that this cert	ificate, to the best of my knowled	lge and belief, is true, co	orrect, a	and complete.	
Sign Here	Susan Page 02/01/22)1/23		
	Em	ployee's signature (This form is not va	alid unless you sign it.)	Da	te		
Employers Only	Empl	loyer's name and address			Employ number	er identification r (EIN)	
For Privacy Act	and F	Paperwork Reduction Act Notice, see pag	e 3. Cat.	No. 10220Q		Form W-4 (2023)	

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:"

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.

¹ https://apps.irs.gov/app/understandingTaxes/student/glossary.jsp www.ngpf.org

Complete Steps 2 Idaim exemption from Step 2: Multiple Jobs or Spouse Vorks Complete Steps 3	Your withholdi First name and middle initial	spouse NAKAMURA spouse NAKAMURA spouse arried and pay more than half the costs ise, skip to Step 5. See page icy. ore than one job at a time, or () withholding depends on income t on page 3 and enter the resulution may check this box. Do the te than (b) if pay at the lower pay is more accurate come, see page 2. sese jobs. Leave those steps if m W-4 for the highest paying if or less (\$400,000 or less if may children under age 17 by \$2,0	e of keeping up a home for your 2 for more information 2) are married filing joint at the arms on Form W-4 for aying job is more than a blank for the other job job.)	Does y name or card? credit if contact or go to the	ach step, who can	
Complete Steps 2 Idaim exemption from Step 2: Multiple Jobsor Spouse Vorks Complete Steps 3: Claim Dependent and Other Credits Step 4 Optional): Other	First name and middle initial N H dress G COOL STREET y or town, state, and ZIP code MECITY, OH 12345 ✓ Single or Married filing separately Married filing jointly or Qualifying surviving Head of household (Check only if you're unms 2-4 ONLY if they apply to you; otherwirorn withholding, other details, and priva Complete this step if you (1) hold mo also works. The correct amount of w Do only one of the following. (a) Reserved for future use. (b) Use the Multiple Jobs Worksheet (c) If there are only two jobs total, you option is generally more accurate higher paying job. Otherwise, (b) TIP: If you have self-employment inc 3-4(b) on Form W-4 for only ONE of the if you complete Steps 3-4(b) on the Form If your total income will be \$200,000 Multiply the number of qualifying	spouse NAKAMURA spouse arried and pay more than half the costs ise, skip to Step 5. See page acy. ore than one job at a time, or (rithholding depends on income to on page 3 and enter the result ou may check this box. Do the athan (b) if pay at the lower pais more accurate	2 for more information 2) are married filing journed from all of the same on Form W-4 faying job is more than the control of the same on Form W-4 faying job is more than the control of t	Does y name card? card? credit if contact or go to the card or go	987-65-4321 rour name match the on your social securifit frot, to ensure you go to rever earnings, it SSA at 800-772-1213 or www.ssa.gov. d a qualifying individual ach step, who car dispersions of your spouse os.	
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tep 4 optional):			. \$			
optional): Other		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				
	(a) Other income (not from jobs) expect this year that won't have very This may include interest, dividen	withholding, enter the amount			\$	
	(b) Deductions. If you expect to clair want to reduce your withholding, the result here				\$	
	(c) Extra withholding. Enter any add	ditional tax you want withheld	each pay period	4(c)		
	,,	,			exempt	
tep 5: Und	der penalties of perjury, I declare that this cer	rtificate, to the best of my knowled	dge and belief, is true, o	orrect, a	ind complete.	
ign Iere <i>K</i>	Ren Nakamura		0	2/(01/23	
En	Employee's signature (This form is not valid unless you sign it.) Date					
mployers Emp		alid unless you sign it.)	Da			

Answer	This:
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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?
explair	that day Susan asked Ren about the tax paperwork they both completed. After Ren ned 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.
	did a little digging and found <u>this reference document from NGPF</u> . She started to make a items she would need to discuss with Ren the next day.
Answ	ver This:
	After reading the reference document, what are three facts that Susan needs to tell Ren to clear up his misconceptions about taxes?

www.ngpf.org Last updated: 3/1/24

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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

Answer This:

	a Employee's social security number 123-45-6789	OMB No. 1545-0008	Safe, accurate FAST! Use	" (RSP 1/2)	Visit the IRS www.irs.gov/e	
b Employer Identification Number (EIN)		1 Wages, tips, other	compensation		ome tax withheld	
55-11111111		\$7,000.00		\$320.00		
c Employer's name, address, and ZIP of	code	3 Social security was	ges		uity tax withheld	
		\$7,000.00		\$434.00		
		5 Medicare wages and	tips	6 Medicare ta	ax withheld	
EAT WELL GROCERY		\$7,000.00		\$101.50		
12345 AWESOME STREET SOMECITY, OH 12345		7 Social security tips		8 Allocated ti	ps	
d Employee's social security number		9 Verification Code		10 Dependent	care benefits	
e Employee's first name and initial	Last name Suff.	11 Nonqualfied plans		12a See instruc	ctions for box 12	
		13 Statutory Retirement plan	Third-party sick pay	12b		
		14 Other		12c		
				12d		
SUSAN W PAGE 123 COOL STREET				C		
SOMECITY, OH 12345				d e		
f Employee's address and ZIP code						
15 State Employer's State ID numb OH 55-222222222-11	er 16 State wages, tips, etc. \$7,000.00	17 State income tax \$48.40	18 Local wage	es, tips, etc.	19 Local income tax	20 Locality name
Form W-2 Wage and Statement	Гах	2023		De	partment of the T	reasury - IRS

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 <u>reference document</u> 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 <u>IRS link regarding Free File</u>.

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.

Answ	er 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.