

Assessment Solutions

Theme 6: Understanding the IRS
Lesson 2: Your First Job

Part 1

Fill in the blanks with words or phrases from the list below.

tax withholding
financial records
exempt
earned income
dependent

1. Items to keep for tax purposes, including paycheck stubs; Form W-4 worksheets; statements of interest or dividends earned; and records of gifts, tips, and bonuses are part of a person's **financial records**.
2. A **dependent** is a person who relies on someone else for support.
3. **Tax withholding** is money that an employer holds back from an employee's pay in order to pay part or all of the employee's taxes.
4. Being **exempt** means being free from withholding of federal income tax.
5. **Earned income** includes wages, salaries, tips, net earnings from self-employment, and other income received for personal services.

Part 2

Indicate whether each of the following statements is *True* or *False*. Write your answers on the lines provided.

1. In the "pay-as-you-go" method of tax payment, a taxpayer pays the tax as income is earned or received during the year. **True**
2. Without tax withholding, many people would find it difficult to save enough money to pay their income taxes all at once. **True**
3. After completing Form W-4, an employee gives both the worksheet and certificate to the employer. **False**
4. Only people who own computers can keep financial records. **False**
5. People who are exempt from withholding do not need to have federal income tax taken out of their paychecks. **True**

Part 3

Write the letter of the best answer for each item that follows.

- C** For most people, federal income tax is collected
 - A. yearly.
 - B. once every three months.
 - C. on a pay-as-you-go basis.
 - D. by the Social Security Administration.

- B** On a Form W-4 taxpayers may claim
 - A. unearned income.
 - B. withholding allowances.
 - C. sick days.
 - D. their right to join a union.

- D** Examples of financial records include
 - A. paycheck stubs.
 - B. W-4 worksheets.
 - C. records of tips.
 - D. all of the above.

- D** The best system for keeping financial records is
 - A. a computer program.
 - B. a budget notebook.
 - C. a checkbook.
 - D. whatever system works best for a person.

- C** An employer withholds taxes from an employee's
 - A. holiday fruit basket and turkey
 - B. lottery winnings
 - C. salaries and wages.
 - D. interest and dividends.