Unit One

Payroll Laws and Regulations

Objectives

Upon completion of this unit, you should be able to:

1. Explain how the social security tax and Medicare tax have evolved over the years.
2. Explain why the federal income tax is on a pay-as-you-go basis.
3. Define and explain the terms represented by these abbreviations: IRS, OASDI, FICA, FUTA, SUTA, ERISA.
4. List the types of payroll information that a business must maintain regarding each employee.
5. Explain the value of social security to employees and their families.
6. Explain why some states have a much higher state minimum wage than other states.
7. Explain the value to employees of the role the federal government has played in protecting workers.
8. Explain the main features of the Fair Labor Standards Act and its benefit to employees.
9. Explain the benefit of workers' compensation laws to employees and their families.

Government laws and regulations play an important role in payroll work, affecting virtually every stage of payroll operations. They determine how employees' earnings are computed, how deductions are made, how payroll records are kept, how taxes are reported and paid to the government, how accounting entries for the payroll are made, and so on.

In this unit, you will learn about the major laws and regulations that influence payroll work. There is no need for you to know every minor detail of these laws and regulations at this time, but you do need to have a basic understanding of them. In later units, you will see how business firms meet many of the legal requirements discussed here.

FEDERAL INCOME TAX LAWS

A constitutional amendment allowing Congress to impose a federal income tax on individuals and corporations went into effect in 1913. Since then, Congress has passed many laws dealing with the federal income tax. One law that has an important effect on payroll work is the Current Tax Payment Act of 1943. This law made it necessary for employers to withhold federal income tax from the earnings of their employees and to periodically send the amounts withheld to the government. This system is known as a "pay-as-you-go" basis and is the expressed preference of Congress.

Please notice that businesses are required to withhold payroll taxes from *employees'* earnings. A person may do work for a business as an independent contractor (also referred to as contract labor). An independent contractor is responsible for paying all employment taxes on those earnings. The Internal Revenue Service (IRS) has issued Publication 15-A, Employer's Supplemental Tax Guide that provides information to assist business owners in determining whether an individual providing services is an independent contractor or an employee. More information about contract labor will be covered in Unit 3.

This 1943 law caused employers to become an integral and one of the most important parts of the income tax collection system. With this law, most businesses became collectors of tax revenue for the government. This function is costly for a business, and it requires a complex system to implement and operate. It has steadily become more complex as laws and employee withholding items have become more numerous.

Among other things, the 1943 law also required employers to keep records of certain employee information. The law did not specify the exact system of records to be used for this information. However, over the years, such records have become standardized, and most businesses use much the same basic system. This is true whether a business uses a sophisticated computer system for payroll or a pencil-and-paper system. (The payroll records shown in this text-workbook are typical of the payroll forms that are now most widely used to gather the necessary income tax information in a usable form.)

All the federal laws governing payroll taxes are enforced by the Internal Revenue Service (IRS). The IRS is currently organized around four customer-focused divisions. The agency's hope is to work with taxpayers with common needs. The four divisions are:

- The Wage and Investment Operating Division
- The Small Business and Self-Employed Operating Division
- The Large and Mid-Size Business Operating Division
- The Tax-Exempt/Government Entities Operating Division

There are many job opportunities with the IRS for accounting majors. Please check the IRS Web site for current job openings (www.irs.gov).

The income tax amounts that firms withhold from their employees must be submitted at regular intervals to the IRS or to a bank authorized by the IRS to receive such funds. While the tax money is temporarily in the hands of the employer, it represents federal tax funds and, in accounting terms, a liability of the business. Businesses are required to file periodic reports with the IRS in order to indicate the amounts of federal payroll taxes withheld from their employees and the sums sent in.

STATE AND LOCAL INCOME TAX LAWS

Most states, and some local governments (cities and counties), impose an income tax on an individuals' wages. The laws relating to these taxes are usually quite similar to the major laws dealing with federal income tax. In most cases, employers are required to withhold state or local income tax from the earnings of their employees, to keep detailed records, to pay the tax withholdings to a state or local agency at regular intervals, and to file periodic tax reports with these agencies.

The same basic system of payroll records that is used to gather the information needed to satisfy federal income tax regulations normally can also be used to keep the information required by state and local income tax authorities.

SOCIAL SECURITY LAWS

In 1935, Congress passed the Social Security Act in order to provide financial security for workers and their families. Originally, the tax rate was 1 percent on wages up to $3,000 per year. This act has been amended a number of times and can be expected to undergo further changes. The federal social security program now consists of two main parts: (1) old-age, survivors, and disability insurance (OASDI), which is commonly known as social security;

Point of Interest

Payroll can be a very complicated operation. While most businesses in this country are small, there are some large companies with a quarter of a million employees or more. Some of these large businesses have employees in each of our 50 states as well as in a number of foreign countries. One can only imagine the skill and effort it takes to comply with the payroll laws in all of the 50 states as well as the foreign countries where their employees work. But it can be done. Indeed, it is being done.

Internet Connection

What employers need to know about the minimum wage and about other provisions of the Fair Labor Standards Act can be found at a Web site maintained by the Department of Labor, at http://www.dol.gov. The site covers topics such as tips, youth employment, and home-to-work travel.

and (2) health and hospital insurance, which is commonly known as Medicare. Medicare is designed to provide medical coverage for eligible persons, while social security provides retirement income as well as financial support for disabled workers. In addition, the survivors' portion of social security provides for the spouse and children of workers who die or are severely disabled.

To obtain funds for these social security programs, Congress passed two additional laws, the Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA). These laws and the unemployment compensation laws passed by the individual states (called SUTA) have had a major impact on payroll work.

The Federal Insurance Contributions Act (FICA) required most employees and employers to pay toward the cost of federal old-age, survivors, and disability insurance. (Some employees and employers, because of special circumstances, are exempt from FICA tax.) Business firms had to withhold a certain percentage from employees' earnings for the FICA tax and to match the total amount deducted as their own share of the tax.

The FICA tax has been adjusted upward many times. In the past 70 years, the percentage has risen from 1 percent of taxable earnings to a combined rate of 7.65 percent for social security and Medicare today. For many years, there was a single rate that covered both social security and Medicare. In 1990, both of these taxes were at a combined rate of 7.65 percent and were levied on wages up to $51,300. At that time, annual wages beyond $51,300 were not taxed under social security rules. However, in 1991 the system was changed. Social security was taxed at 6.2 percent, and Medicare was taxed separately at 1.45 percent.

Though the percentage rates have remained the same since 1991, the wage base on which social security tax is levied increases constantly. These continual increases, which cause larger and larger deductions, are imposed in order to cover the steady growth of social security and Medicare costs.

In 1991, when it became necessary to withhold social security and Medicare taxes separately from employee earnings, businesses were required to report these taxes separately. Prior to this time, the combined tax was commonly referred to as FICA. Now it is identified as two separate taxes—social security tax and Medicare tax. You can see the continual rate of increase in these two taxes over time as you review the chart on p. 4. Remember in looking at the chart that Medicare's wage base currently is unlimited.

In addition to the employees' contribution, the employer must pay an amount that matches the social security and Medicare taxes that are withheld from employees. At regular intervals, the money withheld for social security and Medicare taxes and the matching amount must be sent to the IRS or to a bank authorized to receive such tax payments. It is also necessary

Point of Interest

The maximum a person can collect monthly as a social security recipient has been set at the following amounts for 2004 assuming retirement at:	Age 62	$1,422
	Age 65	$1,784
	Age 70	$2,111

for the employer to file periodic reports with the IRS relating to the social security and Medicare taxes collected.

In years past, the social security tax was looked upon as an important, yet minor, tax upon earnings. Now these taxes are at the point where some workers (those workers with a number of allowances) actually pay more in social security tax than they do in income tax. Since the amounts withheld from employees is matched by employers, this tax has also become a significant cost for businesses.

REQUIRED PAYROLL RECORDS

Another requirement of the IRS concerns payroll records. Employers must keep detailed records with the following information.

1. The name, address, date of birth, and social security number of each employee.
2. Verification of work eligibility.
3. The amount and date of each wage payment and the period covered by the payment.
4. The amount of wages subject to social security and Medicare taxes.
5. The amount of social security and Medicare taxes withheld.
6. When and why an employee leaves the firm.

Most of this information can be kept in the same set of payroll records that is used to gather information about federal, state, and local income taxes. The many forms used in your payroll systems will be illustrated throughout the text.

Wages Subject to Social Security/Medicare Taxes

	Wages Subject to Social Security	Wages Subject to Medicare
2004	$87,900	All earnings
2003	$87,000	All earnings
2002	$84,900	All earnings
2001	$80,400	All earnings
2000	$76,200	All earnings
1999	$72,600	All earnings
1993	$57,600	$135,000
1992	$55,500	$130,200

FEDERAL UNEMPLOYMENT TAX ACT AND STATE UNEMPLOYMENT TAX ACTS

The Federal Unemployment Tax Act (FUTA) and all the unemployment compensation laws passed by the states (SUTA) are intended to finance the unemployment insurance portion of the social security program. These laws require that most employers pay a FUTA tax and a SUTA tax.

Point of Interest

In order to speed up service and to cut costs, the Social Security Administration has directed that all recipients of social security benefits must designate the name of their bank so that the benefits can be sent by electronic funds transfer (EFT) rather than by the U.S. Postal Service. With this system, funds are deposited automatically in the recipient's bank account. Persons who would experience hardship with this system, such as those not having a bank account, continue to receive their checks by mail.

FUTA and SUTA laws specify that employers must make regular tax payments, file periodic tax reports, and keep certain categories of information in their payroll records. These forms are covered in Units 9 and 10.

The states calculate the unemployment tax rate based on the unemployment history of a business. If the business has a history of frequent layoffs with many people drawing unemployment because of the layoffs, that business will have a high SUTA tax rate. This system of rating employers is referred to as a *merit system* or *experience rating system*. A business with few or no unemployment claims against it will pay a relatively low rate of tax to the state. The amount of wages subject to the unemployment tax at the state level is independent from the amount subject to the FUTA. The current FUTA tax is paid on the first $7,000 earned by each employee. Each state sets a maximum amount of wages subject to the SUTA. A complete discussion of unemployment taxes will be covered in Unit 9.

THE FAIR LABOR STANDARDS ACT

In 1938, Congress passed the Fair Labor Standards Act (FLSA) commonly referred to as the federal wage and hour law. This law affects any firm involved in interstate commerce (any firm that does business in more than one state or produces goods or services used in more than one state). There are many provisions to the law, but the most important ones from the standpoint of payroll work deal with the minimum wage and with overtime compensation. This federal law is enforced by the Wage and Hour Division of the Employment Standards Administration (ESA) under the Department of Labor.

The Fair Labor Standards Act (FLSA) sets a *minimum* wage that employers must pay to their employees. There is no set maximum wage, and many employers pay workers more than the minimum wage. Some reasons for paying higher than minimum wage are a shortage of workers or the need to attract dependable workers. Congress has raised the minimum wage from time to time in order to keep pace with changes in economic conditions.

A second major function of the FLSA is to define exempt and nonexempt workers. Generally speaking, an exempt worker is a member of the management team and is not paid on an hourly basis. The word "exempt" means that that worker is exempt from the minimum wage and overtime provisions of the FLSA. A worker defined as "nonexempt" is covered by the FLSA and all minimum wage and overtime pay provisions apply to that worker.

The FLSA also requires that employers pay a special rate for overtime work to covered employees. (Certain types of employees, such as managers, are not covered by this provision of the law and are referred to as *exempt* employees.) The overtime earnings rate is set at 1 1/2 times an employee's regular hourly rate and is paid for any hours worked beyond 40 in a week. Notice that the law specifies that overtime must be paid for work done after *40 hours work per week*—not for work after an eight-hour day. Many firms pay time-and-a-half for any hours worked beyond eight hours in a day even though this is not required under the FLSA. In addition, some companies pay double time for work done on Sundays or holidays. Some companies even provide a bonus of several dollars per hour for workers on night shifts.

It is necessary for employers to keep detailed payroll information about all employees who are subject to the minimum wage and overtime pay provisions of the FLSA. Procedures for acquiring such information must be built into a firm's payroll system because the law requires that records be available for inspection by the U.S. Department of Labor.

A Point of Interest

Taxes always seem to be going higher and higher. There is usually a good reason for this. Consider social security and Medicare. In 1920, for example, the average length of life was estimated to be 54.1 years. In 2001, the average length of life was estimated to be 77.2 years. As our population grew older, there was a larger pool of people who retired on social security. Thus the cost of the program went up. And, as they have aged, there has also been an increase in medical bills for these people, much of which has been covered by Medicare. The tax on social security and Medicare has risen over the years because the cost of these benefits has increased steadily.

Internet Connection

Interested in job opportunities in payroll and other areas of accounting? The American Compensation Association offers a job line at http://www.acaonline.org. Another employment link page is at www.americanpayroll.org.

STATE MINIMUM WAGE LAWS

Some states have their own minimum wage laws and set their own minimum wage rates. These rates may be higher than the federal rate. If a state's minimum wage rate is higher than the federal rate, then employers must pay at the higher rate, the one established by the state. Normally, state minimum wage laws, like the federal law, require employers to keep certain types of payroll information, and these records are subject to inspection.

There are several states that do not have a state minimum wage law. These are Alabama, Arizona, Florida, Louisiana, Mississippi, South Carolina, and Tennessee. In those states with no minimum wage law and in other states where the minimum wage set by state law is lower than the federal minimum wage, the federal rate applies to employees who are covered by the FLSA.

The following 29 states use the federal minimum wage ($5.15 per hour), as of this writing, as their state minimum wage.

Arkansas	Michigan	New Mexico	Utah
Colorado	Minnesotta	New York	Virginia
Georgia	Missouri	North Carolina	West Virginia
Idaho	Montana*	North Dakota	Wisconsin
Indiana	Nebraska	Oklahoma	Wyoming
Iowa	Nevada	Pennsylvania	
Kentucky	New Hampshire	South Dakota	
Maryland	New Jersey	Texas	

* $5.15 for large employers; $4 for small employers

Some states have their *own* minimum wage for employees who are *not* covered by the FLSA; in other words, for employees of companies not engaged in interstate commerce. As of January 1, 2004, these states and amounts were as follows.

Alaska	$7.15	Maine	$6.25
California	$6.75	Massachusetts	$6.75
Connecticut	$7.10	Oregon	$7.05
Delaware	$6.15	Rhode Island	$6.75
Hawaii	$6.25	Vermont	$6.75
Illinois (on 1/1/2005)	$6.50	Washington	$7.16

A Point of Interest

High—and going higher! When the FLSA was passed in 1938, the federal minimum wage was $0.25 an hour. Working one week at that rate amounted to $10 per week ($0.25 × 40 = $10)—an adequate rate for those days, many thought. Obviously, it would be impossible for workers to survive today with such a low wage. By the end of the century, the federal minimum wage was $5.15 per hour and there was talk of another increase. While many forces affect the level at which the minimum wage is set, the most important ones are the rate of inflation and the cost of living.

Two states, Ohio and Kansas, have a state minimum wage less than the federal rate. In Ohio the basic rate is $4.25 with provisions to lower the rate to $3.35 or $2.80 based on annual gross sales between $500,000 and $150,000. Kansas allows a minimum wage of $2.65.

As you review the various state minimum hourly rates listed above, you will notice that they differ widely. Economic conditions within the states, availability of labor, cost of living, and lack or abundance of industry are some of the reasons for the difference in minimum wages.

A Case for Decision 1-1

Don Haskins works as a stock clerk at a local store that is part of a large national chain of tire stores. James Matthews works for a small local tire shop that specializes in doing tire repair and recapping. Both men were hired just last week. Don is paid $5.15 per hour, while James is paid $4.85. Are these pay rates correct under FLSA? Why or why not?

Discussion of the Case

Don's store is engaged in interstate commerce, and by law he must be paid the federal minimum wage under the FLSA. James's tire store is engaged only in local business, so he does not have to be paid the federal minimum wage.

OTHER LAWS AFFECTING WAGES

There are a number of federal laws that affect the wages paid by firms holding contracts with agencies of the U.S. government. These laws are the Davis-Bacon Act of 1931, the Walsh-Healy Public Contracts Act of 1936, and the McNamara-O'Hara Service Contract Act of 1965. The Davis-Bacon Act applies to businesses that have contracts worth more than $2,000 with the federal government for the construction, repair, or alteration of public buildings. The Walsh-Healy Public Contracts Act covers firms holding contracts exceeding $10,000 with agencies of the federal government for the manufacture or supply of goods. The McNamara-O'Hara Service Contract Act applies to businesses that have contracts worth more than $2,500 to provide services to the federal government.

Businesses that are subject to such laws must pay a minimum wage established by the Secretary of Labor. These minimum wage rates are set on an industry-by-industry basis and normally are higher than the regular federal minimum wage.

WORKERS' COMPENSATION INSURANCE

Most states have laws that require employers to provide employees with *workers' compensation insurance,* which protects employees and their families from lost wages that occur because of job-related accidents, disability, or death. To obtain such insurance, employers will either contribute to a state workers' compensation fund or buy insurance coverage from a private insurance company. The amount paid to the fund or the insurance company is a percentage of the employer's total payroll. When an employee files a claim, the employer must supply the state or the insurance company with details about the claim and information about the employee's earnings. As claims are filed against the employer's coverage, the cost of the insurance typically increases.

STATE DISABILITY BENEFIT LAWS

California, Hawaii, New Jersey, New York, Rhode Island, and Puerto Rico have laws that are intended to provide disability insurance to employees who are absent from work because of illnesses or accidents that are *not* job-related. (Such illnesses or accidents are not covered by workers' compensation insurance.) The method used to finance disability benefits varies. Some states require only employees to pay for this protection; the employer deducts a certain amount from each employee's earnings and forwards it to a state fund or private insurance company. Other states specify that both the employer and the employees must contribute to pay for disability insurance.

FAIR EMPLOYMENT LAWS

There are federal, state, and local laws designed to enforce fair practices in employment. These *fair employment laws* are intended to prevent discrimination on the basis of race, color, religion, national origin, age, or sex. Such laws make it necessary for businesses to keep records that show they are following fair employment practices. The major federal laws that deal with job discrimination include:

- Title VII of the Civil Rights Act of 1964 (prohibits discrimination in employment based on one's race, color, religion, sex, or national origin).
- Equal Pay Act of 1963 (requires equal pay for men and women in equivalent jobs).
- Age Discrimination in Employment Act of 1967 (protects workers over 40 years of age, especially making it illegal, in most instances, to force one to retire because of age).
- Americans with Disabilities Act of 1990 and the Rehabilitation Act of 1973 (protects qualified workers with disabilities).
- Civil Rights Act of 1991 (provides for monetary damages to employees who have been intentionally discriminated against).

The Equal Employment Opportunity Commission (EEOC) is the federal agency responsible for enforcing these laws.

Another recent federal law affecting human resources departments is the Family and Medical Leave Act. The law requires employers of more than 50 employees to give up to 12 weeks of unpaid leave to eligible employees for the birth or adoption of a child or to take care of a parent, spouse, or child that has a serious illness. Under this law, the employee's position is protected, that is, he or she is assured of a job when reporting back to work.

A Case for Decision 1-2

John Mallard is 71 and in good health. He has been with his company for 32 years. He has an excellent attendance record and has received periodic increases in pay. He is currently a security guard at the plant's main gate. The company would like to replace him with a younger person. They suggest that he might want to retire. He declines because he likes his job. Then they offer him $10,000 as a bonus if he retires, $5,000 upon retirement and another $5,000 a year later. He gladly accepts. Is the company acting illegally?

Discussion of the Case

John Mallard cannot be forced to retire simply because of his age. He can, however, trade away his right to remain on the job. Buyouts such as this one are not uncommon in business.

PENSION SECURITY LAWS

Many businesses, especially large firms, have pension funds for their employees. The Employee Retirement Income Security Act (ERISA) was passed in 1974 to protect such funds. This federal law regulates pension fund operations and specifies the action that can be taken if a fund does not have enough money to pay the benefits that were promised to the employees.

Under ERISA, some employers and pension plan administrators must provide funds for an insurance program to protect employees' retirement funds. The Employee Benefits Security Administration (EBSA) is the federal agency responsible for enforcing the ERISA provisions.

EBSA also is the agency responsible for enforcing the reporting requirements of the Comprehensive Omnibus Budget Reconciliation Act of 1985 (also known as COBRA). The basic requirement of this act requires employers to allow continuation of health care benefits when a worker is dismissed, with the worker paying the cost of the health care premiums.

THE IMMIGRATION REFORM ACT

On June 1, 1985, the Immigration Reform Act went into effect. The act's provisions affect employers, employees, and job applicants.

Employers must now certify that newly hired employees have shown either proof of citizenship or papers that allow noncitizens to work in this country. For hiring an illegal immigrant, an employer faces fines from $250 to $2,000 per employee for the first offense, $2,000 to $3,000 for the second offense, and $3,000 to $10,000 for the third offense.

Employees and job applicants can help employers avoid these fines by offering valid proof that they are citizens or that they can work legally in the United States. Among the documents accepted as proof are certificates of U.S. citizenship or naturalization, valid foreign passports plus employment authorization forms, alien registration cards, photo IDs such as driver's licenses, and U.S. military cards together with social security cards and birth certificates.

A key form now required to be retained by the employer is the I-9, which will establish the right to work of the employee. This form is discussed in detail in Unit 2.

NEW HIRE REPORTING

Another federal law that affects employees is the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which is also know as the Welfare Reform Act. This law requires employers to file a New Hire Reporting Form with a special state registry within 20 days after a new employee starts work.

The state registry sends the names of new employees to the Federal Parent Locator Service for listing in a national directory. This directory allows officials in other states to find individuals who owe child support payments.

Learning Through Practice

Do Exercises 1.1 and 1.2 on page 13 of this text-workbook.

UNIT 1 REVIEW

Summary

After studying Unit 1 you should be able to:

- Explain the pay-as-you-go tax system of the federal government.
- Understand the purpose of the social security and Medicare systems.
- Know the levels of wages taxable under the social security and Medicare tax laws.
- List the types of information that a business must maintain on each employee.
- Understand the basic provisions of the Fair Labor Standards Act.
- Name and explain some of the major federal laws that affect employers and protect employees.

Study Questions

1. What was the first minimum hourly wage rate?
2. What happens to the income tax deducted from employee earnings by an employer?
3. List the two main parts of the social security program.
4. Why did Congress pass the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA)?
5. Who pays social security taxes? Who pays FUTA taxes?
6. What information related to payroll must an employer keep under the Federal Insurance Contributions Act?
7. How is the employee's share of the social security tax collected and paid to the IRS? How is the employer's share paid?
8. Explain how the Fair Labor Standards Act regulates the wages that employers pay to their employees.
9. What is the current federal minimum wage?
10. Name the laws that provide employee protection for the following:
    a. Accidents or illnesses that are job-related.
    b. Pension fund contributions.
11. List the methods used to finance the following:
    a. Workers' compensation benefits.
    b. Disability benefits.
12. What is the purpose of the Civil Rights Act of 1964?
13. Explain how the wage base and the tax rate are used to calculate the social security and Medicare taxes.
14. Explain when a business may ignore the minimum wage established under the Fair Labor Standards Act.
15. Which federal law gives a worker the right to return to a job after the birth or adoption of a child?
16. What is the current rate of tax for social security?
17. What is the current rate of tax for Medicare?
18. What is the maximum workers' pay subject to the Medicare tax?
19. What has been the trend over the past five years as to the amount of an employee's earnings that is subject to social security tax?
20. Which law prevents an employer from firing an employee who is over 40 solely because of age?

Discussion Questions

1. What are the major responsibilities of employers under the federal income tax laws?
2. Check the unemployment compensation law in your state, and answer the following questions:
   a. Can an unemployed worker in your state collect additional benefits if he or she has dependents? If so, how much is paid for each dependent?
   b. Can a woman in your state collect benefits during pregnancy?
3. In 1996, the minimum wage required by the Fair Labor Standards Act was $4.25 an hour. As of this writing, the rate is $5.15. Why does Congress raise the minimum wage from time to time?
4. Check the minimum wage situation in your state, and then answer the following questions:
   a. Does your state have a minimum wage?
   b. If so, what is the amount of the state minimum wage?
   c. Does the state minimum wage differ from the federal minimum wage?
5. What are some advantages and disadvantages of raising minimum wage rates?
6. What are the major responsibilities of employers under the Federal Insurance Contributions Act (FICA)?
7. Why were the federal income taxes owed by employees put on a pay-as-you-go basis starting in 1943?
8. How does SUTA affect employees and their employers when the employees lose their jobs as a result of a slowdown in business?
9. Which of the several state-level labor laws is designed specifically to benefit employees who are disabled as a result of a job-related accident?
10. Why do employers require new employees to show that they are citizens of the United States or have papers that allow them, as noncitizens, to work in this country?

Name ____________________ Date ____________________

Learning Through Practice

Unit 1 Exercises

EXERCISE 1.1

A number of laws that affect payroll work are described here. Read each description, and then match it with the name of the correct law. In the answer column, write the identifying letter of the law that has been described.

Name of Laws

A. Civil Rights Act
B. Current Tax Payment Act
C. Disability benefit laws
D. Employee Retirement Income Security Act
E. Fair Labor Standards Act
F. Federal Insurance Contributions Act
G. Federal Unemployment Tax Act
H. Immigration Reform Act
I. Social Security Act
J. Walsh-Healy Public Contracts Act
K. Worker's compensation laws

Description of Laws	**Answer**
1. A law that requires employers to withhold federal income tax from employee earnings.	1. ______
2. A law that requires employers to certify that newly hired employees have shown either proof of citizenship or papers that allow noncitizens to work in the United States.	2. ______
3. State laws that provide employees with insurance against job-related accidents and illnesses.	3. ______
4. A law that allows the Secretary of Labor to set special industry-by-industry minimum wage rates for firms that do business with the federal government.	4. ______
5. A law that imposes a tax on both employees and employers in order to finance the federal old-age, survivors, and disability insurance programs.	5. ______
6. A law that established the federal programs for old-age, survivors, and disability insurance and for unemployment insurance.	6. ______
7. A law that imposes a tax on employers to finance the federal program of benefits for jobless workers.	7. ______
8. A law that has provisions requiring employers to follow fair employment practices.	8. ______
9. A law that regulates pension fund operations.	9. ______
10. State laws that provide employees with insurance against accidents and illnesses that are not job-related.	10. ______
11. A law that requires firms involved in interstate commerce to pay a federal minimum wage and a special overtime rate.	11. ______

EXERCISE 1.2

Based on your study of payroll laws and regulations, decide whether each of the firms discussed here is acting in a legally acceptable way. If the firm is acting legally, write *Yes* in the answer column. If it is not, write *No* in the answer column.

	Answer
1. Marilyn Blake, the owner of Web Page Designers, was late in sending employee income tax withholdings to the IRS because she had used the money to buy some new computer equipment that the firm needed and it took her a while to replace the funds.	1. ______
2. The Clothing Connection operates a chain of stores in shopping malls. The firm has a policy of paying the minimum wage to its inexperienced part-time workers but gives a higher wage to its experienced full-time employees.	2. ______

3. Strategic Network Systems has a large sales force that calls on businesses to market its computer equipment and software. Alan Davis, the firm's executive vice president, has a policy of not hiring women for sales jobs because he feels that the work is too tiring for them. He also does not hire men who are more than 40 years old for such jobs. 3. ________
4. The Houston Auto Parts Company is subject to both the federal minimum wage and a state minimum wage. The firm uses the minimum wage rate set by the state because it is higher than the federal rate. 4. ________
5. Pete Grays, a bricklayer at the Coney Construction Company, told the owner of the business that he would work overtime at his regular rate rather than time and a half if he received his overtime pay in cash without any deductions for income tax, social security, and Medicare. The owner agreed to this idea. 5. ________
6. In a job interview, Travis Carr, a manager at Standard Chemical, asked a potential employee questions about her religion and national origin. He feels that it is important to hire people with similar backgrounds so that everyone can work together comfortably. 6. ________
7. Alice Anderson, a telemarketing supervisor at the CVC Home Shopping Company, wanted to continue working when she reached the age of 65. She was in good health and had excellent performance ratings. However, the head of her department insisted that she retire so he could promote a younger employee into her job. 7. ________
8. Joanne Johnson, the owner of Frontier Fashions, a manufacturer of casual clothing, recently hired three new sewing machine operators who are not citizens. She did not ask them for proof that they are entitled to work in this country. 8. ________
9. The Sterling Hardware Company recently set up a retirement savings and profit-sharing plan for its employees. Because this plan will provide funds for retirement, some employees feel that they will not need old-age benefits from the social security system and have asked the firm to stop deducting social security tax from their earnings. Management has refused, and the firm is still deducting the tax. 9. ________
10. Lauren Hill, the owner of Delta Coffee and Snacks, does not bother to set up payroll records for new employees until she is sure that they will work out and stay with the job. She usually waits about three months before establishing such records. 10. ________

Name ______________________ Date ______________________

Alternate Learning Through Practice Exercises

Unit 1 Exercises

EXERCISE 1.1A

A number of laws that affect payroll work are described here. Read each description, and then match it with the name of the correct law. In the answer column, write the identifying letter of the law that has been described.

Names of Laws

A. Age Discrimination in Employment Act
B. Americans With Disabilities Act
C. Civil Rights Act of 1991
D. Current Tax Payment Act
E. Equal Pay Act
F. Fair Labor Standards Act
G. Federal Insurance Contributions Act
H. Federal Unemployment Tax Act
I. Immigration Reform Act
J. Title VII of the Civil Rights Act of 1964
K. Worker's compensation laws

Description of Laws — **Answer**

1. A law that requires firms involved in interstate commerce to pay a federal minimum wage and a special overtime rate. 1. ________
2. A law that prohibits discrimination in employment based on race, color, religion, sex, or national origin. 2. ________
3. A law that protects workers over 40 years of age from discrimination in hiring and makes it illegal, in most cases, to force qualified older workers to retire. 3. ________
4. A law that requires employers to withhold federal income tax from employee earnings. 4. ________
5. A law that provides monetary damages to employees who have been intentionally discriminated against. 5. ________
6. State laws that provide employees with insurance against job-related accidents and illnesses. 6. ________
7. A law that protects qualified disabled workers from discrimination in hiring, promotion, and dismissal. 7. ________
8. A law that imposes a tax on both employees and employers in order to finance the federal old-age, survivors, and disability insurance programs. 8. ________
9. A law that requires employers to pay the same wages to men and women who have equivalent jobs. 9. ________
10. A law that requires employers to certify that newly hired employees have shown either proof of citizenship or papers that allow noncitizens to work in the United States. 10. ________
11. A law that imposes a tax on employers to finance the federal program of benefits for jobless workers. 11. ________

EXERCISE 1.2A

Based on your study of payroll laws and regulations, decide whether each of the firms discussed here is acting in a legally acceptable way. If the firm is acting legally, write *Yes* in the answer column. If it is not, write *No* in the answer column.

Answer

1. Brian Bates, the owner of A-One Truck Repair, found several Web sites that claim that employers do not have to withhold income taxes from employee earnings. He therefore stopped deducting both federal and state income taxes. 1. ________
2. Kathy O'Donnell was a very successful travel agent at Holiday Tours. After an auto accident, her doctor cleared her to return to work, but the owner of the firm fired her. He felt that the sight of Kathy in the wheelchair that she now uses would be depressing to clients. 2. ________

3. Earl Brown was a sales representative at Alamo Products for many years. When he turned 68, the firm offered him a severance payment of $40,000 and an increased pension if he would retire. He accepted the offer. 3. ________
4. Ruth Dow, who owns a restaurant called the Candlelight Cafe, recently hired a new chef. When he started the job, he told her that he wanted to be paid "off the books" (in cash with no tax deductions). She refused. 4. ________
5. John Kelso is the manager of a furniture store. During the same week, he hired two sales associates. Both jobs are equivalent, and both new employees have similar education and experience. However, the manager decided to pay a weekly salary of $500 to the woman he hired and a weekly salary of $600 to the man he hired. 5. ________
6. Laci Clark recently started work as a cashier at a branch of Office Supplies Unlimited, a national chain. The manager explained that Laci would be expected to work overtime several hours a week. However, because his budget is tight, he would have to pay her the regular rate rather than time and a half for these hours. 6. ________
7. When Paul Gallo hired two new employees for his lawn care service, he asked them to provide evidence of citizenship or proof that they are entitled to work in this country if they are not citizens. 7. ________
8. Kim Lee operates Golden Harvest, a chain of three health food stores, within one state. The state has a minimum wage of $7.05 an hour, which she pays to the sales associates in two of the stores. In the third store, which is located in an area where labor is in short supply, she pays $8 an hour. 8. ________
9. When Don Hewitt went for a job interview at the South Coast Bank, the manager asked him about his religion and the national origin of his family. The manager told Don that he hires only people from certain groups because they are more reliable. 9. ________
10. After business slowed at the Stevens Company and it was necessary to cut the staff, one manager suggested that the firm simply lay off all employees over the age of 50. 10. ________