

**Numbers and Operations: Certified Public Accountant
O'Neil & Associates CHTD.**

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Problem:

I want to pay a \$1,000 bonus to an employee. The IRS requires me to withhold 20% for income taxes and 7.5% for Social Security and Medicare taxes.

1. What should the amount of the bonus be to be certain the employee receives \$1,000?
2. As the employer, I have to match the 7.5% Social Security/Medicare tax and send that to the IRS as well. How much money will I have to send to the IRS?

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Solution:

1. $b =$ the bonus amount

$$20\% + 7.5\% = 27.5\% \text{ or } .275$$

$$b - .275 b = \$1,000$$

$$.725 b = \$1,000$$

$$b = \$1000 \div .725$$

$$b = \$1,379.31 \text{ (bonus amount)}$$

2. $\text{bonus} - \text{net bonus} = \text{taxes withheld}$

$$\$1,379.31 \text{ bonus} - \$1,000 \text{ net bonus} = \$379.31 \text{ taxes withheld}$$

$$\$1,379.31 \times 7.5\% = \$103.45 \text{ Social Security/Medicare tax}$$

$$\$379.31 \text{ withheld} + \$103.45 \text{ employer match} = \$478.76 \text{ sent to IRS}$$