

Example of a Pay Stub

123 - John R. Doe				Pay Period 06/02/19 to 06/16/19				Required Deductions			
								This Pay Period		Year-To-Date	
Earnings				Federal Income Tax				38.52		77.04	
				FICA - Medicare				6.08		12.16	
				State Income Tax				00.00		00.00	
				FICA - Social Security				29.92		51.84	
				Other Deductions							
				Health Insurance				00.00		00.00	
				401k				00.00		00.00	
				Parking				00.00		00.00	
				NET PAY				\$375.48		\$750.96	

Your Employer 1234 Some Street Milwaukee, WI 53204	Check Number: 82635 June 21, 2019
PAY ***Three hundred seventy five dollars and 48 cents*****\$ 375.48	
To the order of John R. Doe 555 Some Street Milwaukee, WI ZIP CODE	

What Are All These Deductions from My Paycheck?

It's exciting to receive your first paycheck. But for many young people, that first rush of excitement turns to disappointment when they realize the money they earned is not the same as the money they received. Uncle Sam and others have taken part of their paycheck. Let's see if we can figure out what is happening to those earnings.

GROSS INCOME

Gross income is the total amount of money a worker earns before any deductions are made. In the case of an hourly employee, the gross income is found by multiplying the number of hours worked times the employee's hourly rate of pay. Suppose the employee works 40 hours at \$10 an hour. The gross pay would be \$400 a week.

$$40 \text{ hours} \times \$10 \text{ an hour} = \$400$$

$$\text{Gross income} = \$400$$

Similar calculations are made to determine the gross income of employees who receive a bi-weekly, monthly, or annual salary.

Gross income is important because lenders and landlords use it to determine if someone is eligible for loans or leases. Also, the gross income is the starting point for calculating state and federal income taxes and other deductions.

NET INCOME

Net income is the amount left after all deductions are taken out of the gross income. It is often called take-home pay because it is the amount of income in an employee's paycheck.

$$\begin{aligned} &\text{Gross pay} \\ &- \text{Deductions} \\ &= \text{Net pay} \end{aligned}$$

Net income is important because it is the amount of money the employee has available to spend on goods and services.

REQUIRED (MANDATORY) DEDUCTIONS

Federal income tax, state income tax, local taxes, and FICA are among the required deductions taken from an employee's paycheck. FICA is the abbreviation for the Federal Insurance Contributions Act, a law that created a mandated (required) payroll deduction to fund Social Security and Medicare programs. Social Security and Medicare are social programs providing benefits for retirees, people with disabilities, and their survivors. The payment is mandatory and based on a person's gross income, up to a cap that is set each year.

The percentage of income deducted for federal, state, and local income taxes is set individually by those various levels of government and can vary greatly. The amount deducted is usually determined by tax tables provided by those governments.

When calculating deductions, employers use the information provided by the tax tables and combine it with information from employees to determine how much to take out of an employee's paycheck. Employees complete the W-4 Form (Employee's Withholding Allowance Certificate) when they are hired. This form tells the employer the number of allowances the employee wishes to claim. For example, an employee is able to claim allowances for himself or herself, a spouse, and children under 21 years of age supported by the employee. The more allowances an employee claims, the less money withheld from the employee's paycheck.

The number of allowances claimed determines the amount of income deducted from an employee's paycheck. It also determines whether or not individuals may owe more taxes on their tax return or if they receive a refund. As a general rule, individuals want to claim an appropriate number of allowances to ensure they neither owe or are owed a refund when they file their tax return.

Mandatory Deductions from Your Paycheck		
Deduction	What does it pay for?	Who pays?
Federal income tax	This tax helps pay for services provided by the federal government, such as defense, human services, and the monitoring and regulation of trade.	Employee
State income tax	This tax helps pay for services provided by state government, such as roads, safety, and health. (Not all states levy an income tax.)	Employee
Local income tax	This tax helps pay for services provided by the city or other local government, such as schools, police, and fire protection. (Very few local areas levy an income tax.)	Employee
FICA: Social Security tax	This tax provides for old-age, survivors, and disability insurance.	Employee and employer
FICA: Medicare tax	This tax provides for medical insurance for the elderly.	Employee and employer

In addition to required deductions, employers may deduct payments for various employee benefits. Benefits vary by industry, by company, business, and by the employee's status in the firm. Benefits may include such things as life insurance, disability insurance, medical insurance, dental insurance, retirement savings plans, and profit-sharing.

Other Possible Deductions		
Deduction	What do you get?	Who pays?
Life Insurance	Pays a beneficiary in the event that an employee dies.	Employer or employee, or shared
Long-term disability insurance	Provides benefits in the event that an employee is completely disabled.	Employer or employee, or shared
Medical insurance	Provides employee and family insurance coverage for medical care expenses including hospitalization, physician services, surgery, and major medical expenses.	Employer or employee, or shared
Dental insurance	Provides employee and family insurance coverage for dental care expenses, including preventive diagnostic, basic, major, and orthodontic services.	Employer or employee, or shared
Retirement savings plan	A tax-deferred savings plan for retirement.	Employer or employee (Employer may match percentage.)
Charity	A donation to a specific charity.	Employee (Employer may match a percentage of employee contribution.)

Questions

- a. What is gross pay?

- b. What is net pay?

- c. Is the amount of money shown on your paycheck equal to the total of the number of hours worked times the rate of pay? Why or why not?

- d. Name at least three mandatory deductions that are taken out of gross pay.

- e. Name three other possible deductions.