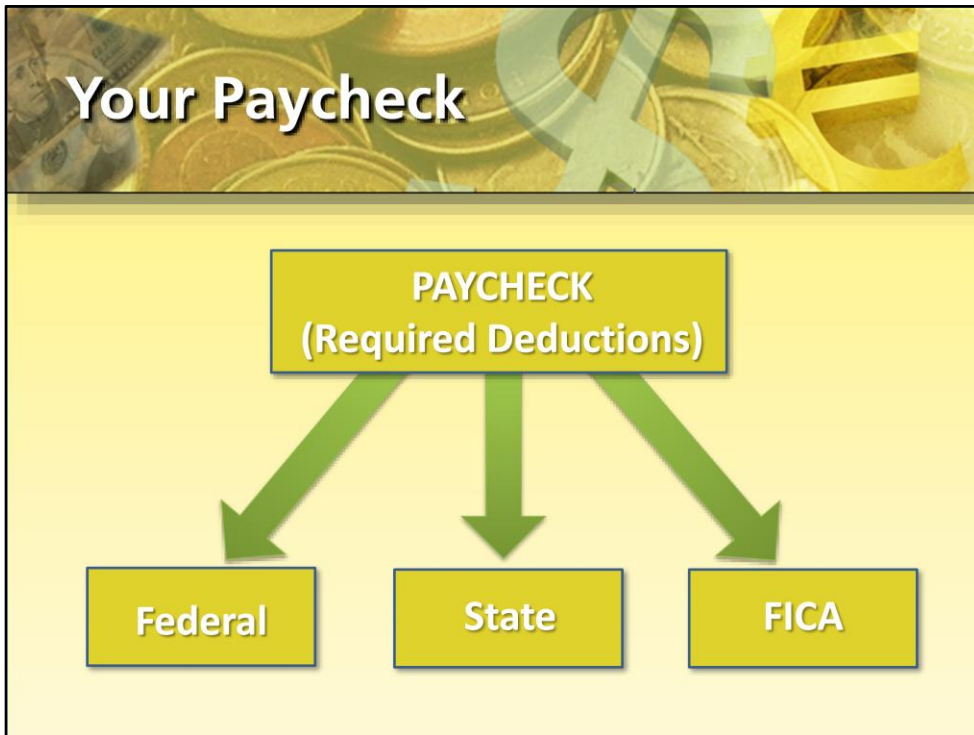


Your paycheck begins with your gross pay. Gross pay is the total amount of money you earn before deductions.



Deductions are amounts that get subtracted from your earnings, like taxes. Your employer has to give you a pay stub that details your gross pay and all amounts that were deducted from your pay. Some deductions are required by law such as with federal taxes, state taxes, and Social Security taxes. Some areas also have local or city taxes.

Social security taxes are labeled as FICA on your pay stub. FICA stands for Federal Insurance Contributions Act. The amounts taken for FICA are credited to your social security number and will, hopefully, be there for you when you retire. FICA is split into two parts – Social Security and Medicare. The 2011 Social Security tax is 4.2% of the first \$106,800 you make each year. After you earn \$106,800, that 4.2% won't be deducted from your paycheck for the rest of the year. The base amount (\$106,800) starts over every year. The Social Security tax rate has a number of exceptions and can vary from year to year.

The Medicare tax is 1.45% of all your earnings for the year. Unlike the Social Security tax, there is no income limit for the Medicare tax so your entire earnings are taxed at 1.45%. FICA is a total of 7.65% out of each paycheck. Employers are required to match this amount, which also gets credited to your social security number. Congress raises the percentage or the base amount as needed to meet the demands on Social Security.



You can also choose to have other amounts deducted from your paycheck. Some people have their insurance payments come out of their paycheck. You can also choose to have a certain amount deducted from your paycheck and put into your savings account or retirement account each paycheck. You may choose to have your union dues or other organization dues deducted from your paycheck. Some people put money into a medical reimbursement account. This account is to pay you back for medical expenses you incur throughout the year. The benefit of this type of account is that the money is taken out of your paycheck **before** taxes are deducted. Essentially, this reduces the amount of taxes you pay each paycheck because your income is reduced before taxes are calculated. With this type of account, you basically put money aside to reimburse yourself for your medical expenses, like co-pays and prescriptions. There are also child care reimbursement accounts that work the same way the medical reimbursement accounts do. Money is taken out of your paycheck before taxes and put into an account. After you pay your child care expenses, you can get reimbursed from your account. Again, this type of deduction is done pre-tax which ends up reducing the amount of tax you pay each paycheck.

In order to have optional deductions taken out of your paycheck, you have to fill out a form detailing the amount to deduct and where to send the amount. Deductions can't be taken out of your paycheck without your written permission. There are a couple of exceptions to this rule, though. The deductions that are required by law, like taxes, do not require your written permission. Also, if a court rules that money is to be deducted from your paycheck, the court doesn't have to get your permission. This ruling is called a garnishment. This can be done for things like back child support or debt collection.



After all deductions have been subtracted from your gross pay, the result is your net pay. Net pay is what remains after voluntary and required deductions are subtracted from gross pay. Net pay is the actual amount of your paycheck.

# Calculating Your Paycheck

**EMPLOYEE WITHHOLDING SHEET**

Employee Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

Pay Period:  weekly  biweekly  monthly

Number of Allowances: \_\_\_\_\_  married  single

**GROSS PAY**

1. Regular Wages: \_\_\_\_\_ hours at \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

**OR**

2. Regular Salary: \_\_\_\_\_ = \$ \_\_\_\_\_

3. Overtime: \_\_\_\_\_ hours at \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

**GROSS PAY:** \_\_\_\_\_ \$ \_\_\_\_\_

**REQUIRED DEDUCTIONS**

4. Federal Income Tax (use 7, 8, or 9)..... \$ \_\_\_\_\_

5. State Income Tax (use 10, 11, or 12)..... \$ \_\_\_\_\_

6. Social Security Tax (use 7, 8, or 9 times gross pay)..... \$ \_\_\_\_\_

**OTHER DEDUCTIONS**

7. Insurance..... \$ \_\_\_\_\_

8. Union Dues..... \$ \_\_\_\_\_

9. Credit Union..... \$ \_\_\_\_\_

10. Savings..... \$ \_\_\_\_\_

11. Retirement..... \$ \_\_\_\_\_

12. Charity..... \$ \_\_\_\_\_

13. Other..... \$ \_\_\_\_\_

**TOTAL DEDUCTIONS** (total lines 4 through 13)..... \$ \_\_\_\_\_

**NET PAY** (subtract total deductions from gross pay)..... \$ \_\_\_\_\_

**Employee Withholding Sheet**

Now let's look at exactly how to calculate a paycheck. Print a copy of the sample "Employee Withholding Sheet" by clicking on the button so that you can fill it in as we do the example together. We will use the information from the following scenario to learn how to do this...

# Calculating Your Paycheck

**EMPLOYEE WITHHOLDING SHEET**

Employee Name Sandy Student Social Security Number 123-45-6789

Pay Period:  weekly  bimonthly  monthly

Number of Allowances: 0  married  single

**GROSS PAY**

1. Regular Wages: 40 hours at \$ 7.25 /hr. = \$ 290.00

**or**

2. Regular Salary: = \$ \_\_\_\_\_

3. Overtime: 4 hours at \$ 10.875 /hr. = \$ 43.50

**GROSS PAY** ..... \$ 333.50

Sandy Student works for a weekly paycheck. Her social security number is 123-45-6789. She is single and claims no allowances. Last week she worked 4 days for a total of 44 hours. Her regular rate of pay is \$7.25 an hour. In addition to withholding for federal income tax, state tax, Medicare, and social security, Sandy also has insurance of \$25 per week withheld and puts 6 percent of her gross pay into a retirement account.

On your “Employee Withholding Sheet” fill in the information at the top of form using the information from the scenario (name, SSN, Pay Period, Number of Allowances, and Marital Status).

To calculate Sandy’s gross pay, start by multiplying her regular pay rate times 40 hours. Remember, anything over 40 hours is considered overtime and she gets paid more for those hours! So, in our example, Sandy’s regular pay would be  $\$7.25 \times 40$  hours for a total of \$290.00. On line 1 fill in 40 hours at  $\$7.25 / \text{hr.} = \$290.00$ . For this example you will leave line 2 blank because Sandy works for an hourly wage instead of salary.

Next, we need to figure out how much she will make for each of her overtime hours. To do this multiply her regular pay rate by 1.5 to get time and a half.  $\$7.25 \times 1.5 = \$10.875$  per overtime hour. Remember, don’t round the overtime rate. We will do it when we get her overtime pay.

Now you need to calculate Sandy’s overtime pay. On line 3 enter 4 hours at  $\$10.875 / \text{hr.}$  Now multiply the overtime rate of  $\$10.875$  times the 4 hours of overtime she worked to get \$43.50 of overtime pay. Fill in \$43.50 on line 3.

Next, add the regular pay on line 1 of \$290.00 to the overtime pay on line 3 of \$43.50 to get gross pay of \$333.50. Put this total on the Gross Pay line.

# Calculating Your Paycheck

## Federal Withholding Tax Tables

*(Tax table is provided by the Internal Revenue Service)*

### REQUIRED DEDUCTIONS

- 4. Federal Income Tax (use tax tables).....\$ **36.00** \_\_\_\_\_
- 5. State Income Tax (use tax tables).....\$ \_\_\_\_\_
- 6. Social Security Tax (use 7.65% times gross pay).....\$ \_\_\_\_\_

### OTHER DEDUCTIONS

- 7. Insurance.....\$ \_\_\_\_\_

The IRS provides withholding tables that businesses use to figure out how much federal tax should be withheld from a person's paycheck based on the number of withholdings (or allowances) claimed on Form W-4. Each state also provides withholding tables that businesses use to figure out how much state tax should be withheld from a person's paycheck. We will use these tables to get the federal and state taxes that will be withheld from Sandy's paycheck.

To find Line 4 on your "Employee Withholding Sheet" open the Federal Withholding Tax Tables. Scroll down to p. 38 after opening the link. This page is for single people who get paid weekly. Now you will look up Sandy's gross pay amount in the table. Sandy's gross pay is \$333.50 and she claims no allowances. An allowance is a number that reduces the amount of income tax that will be withheld from your paycheck. The more allowances you claim, the less tax will be withheld. Everyone can claim his or herself as an allowance. The first two numbers in the table are a beginning and ending range for wages. It is important to note that if the gross pay is exactly equal to the second number in the wage range, you should look at the range on the next line because the second column is "But less than" not "Equal to." Since Sandy earned \$333.50 you will look at the numbers beside the \$330 to \$340 range. Since Sandy claims 0 allowances, look at the number under the 0 column beside the \$330 to \$340 range. The federal tax that will be withheld from Sandy's pay is \$36. Write this amount on line 4 of your "Employee Withholding Sheet."

# Calculating Your Paycheck

## Virginia Withholding Tax Tables

*(Tax table is provided by the Virginia Department of Taxation)*

### REQUIRED DEDUCTIONS

- |   |                       |
|---|-----------------------|
| 4. Federal Income Tax (use tax tables).....             | \$ <b>36.00</b> _____ |
| 5. State Income Tax (use tax tables).....               | \$ <b>12.00</b> _____ |
| 6. Social Security Tax (use 7.65% times gross pay)..... | \$ _____              |

### OTHER DEDUCTIONS

- |                      |          |
|----------------------|----------|
| 7. Insurance.....    | \$ _____ |
| 8. Union Dues .....  | \$ _____ |
| 9. Credit Union..... | \$ _____ |

Now you will use the Virginia Withholding Tables to find line 5 on the “Employee Withholding Sheet.” Scroll down to p. 4 after opening the link. Again you will find Sandy’s gross pay of \$333.50 in the wage ranges. Find the \$330 to \$340 range and look at the number under the 0 column beside the \$330 to \$340 range. Sandy will have \$12 withheld in Virginia taxes from her paycheck. Write this number on line 5 of your sheet.



# Calculating Your Paycheck

$$\$333.50 \times 7.65\%$$

REQUIRED DEDUCTIONS	
4. Federal Income Tax (use tax tables).....	\$ <u>36.00</u>
5. State Income Tax (use tax tables).....	\$ <u>12.00</u>
6. Social Security Tax (use 7.65% times gross pay).....	\$ <u>25.51</u>
OTHER DEDUCTIONS	
7. Insurance.....	\$ _____

To calculate the social security tax, you will multiply Sandy's gross pay of \$333.50 times 7.65% which is the current amount of social security and Medicare combined. Remember to round to 2 decimal places. Write this answer on line 6 of your form. Did you get \$25.51? If so, you are correct. If not, try it again.

# Calculating Your Paycheck

REQUIRED DEDUCTIONS	
4. Federal Income Tax (use tax tables).....	\$ <b>36.00</b> _____
5. State Income Tax (use tax tables).....	\$ <b>12.00</b> _____
6. Social Security Tax (use 7.65% times gross pay).....	\$ <b>25.51</b> _____
OTHER DEDUCTIONS	
7. Insurance .....	\$ <b>25.00</b> _____
8. Union Dues .....	\$ _____
9. Credit Union .....	\$ _____
10. Savings .....	\$ _____
11. Retirement .....	\$ <b>20.01</b> _____
12. Charity .....	\$ _____
13. Other: _____	\$ _____
_____	\$ _____
<b>TOTAL DEDUCTIONS</b> (total lines 4 through 13).....	\$ <b>118.52</b> _____
<b>NET PAY</b> (subtract total deductions from gross pay).....	\$ <b>214.98</b> _____

For other deductions, you will need to review the scenario again to see what optional deductions Sandy has chosen to have withheld from her pay. She gets \$25 a week taken out of her pay for insurance. Write this amount on line 7 of your form. Sandy also puts 6% of her gross pay in her retirement account. Multiply her gross pay times 6% to get this number. Round to 2 decimal places. Did you get \$20.01? Write that number on line 11 of your form.

To get Sandy's total deductions from her pay, all you have to do is add up the amounts on lines 4 through 13. You should get \$118.52. This is the total amount that should be subtracted from Sandy's gross pay. Write this amount on the line beside TOTAL DEDUCTIONS.

Finally, take Sandy's gross pay and subtract her total deductions. So, \$333.50 minus \$118.52 is \$214.98. This is Sandy's net pay. Write this number on the line beside NET PAY. Sandy will get a check for \$214.98!

# Benefits & Incentives

- **Insurance Plans**
- **Paid Vacation and Holidays**

Benefits are part of an employee's compensation, over and above wages or salary. They add to the financial value of a job. When a company offers benefits, employees have to pay for fewer things out of their own pockets. There are many different kinds of benefits that may be offered to full time employees. Let's look at a few of the most common ones.

Many companies offer insurance plans for their employees. These plans may include health, dental, vision, and life insurance plans. Health insurance is very expensive and most people could not afford it if their employers didn't offer group plans. The insurance module covers this topic in greater detail, but basically a group plan reduces the cost of insurance because the cost is spread among a group of people making it cheaper for each employee. Some companies offer a group health plan, and employees can pay their own costs for coverage through the company's group plan. Other companies pay part or all of the cost of health insurance for their employees. Since health insurance is so expensive, this benefit can really add to an employee's compensation because it reduces or eliminates the cost for the employee allowing the employee to keep more money in his or her pocket. Some companies also offer dental insurance plans. These plans frequently cover the cost of routine exams and cleanings. Other dental services are covered at about 50 to 80% which means the employee pays only the remainder of the cost. Vision insurance plans typically cover eye exams every few years and may offer reduced prices on glasses and contact lenses. Some companies also offer life insurance plans to their employees. Life insurance pays cash to a designated beneficiary when the insured person dies. The purpose of these plans is to help offset the lost income when one wage earner dies. A company may pay for a small policy for its employees and the employee can choose to pay additional amounts for more coverage.

Paid vacation and holidays are a nice benefit, because an employee gets a day or more off with pay. How vacation days are offered differs by company. Some companies give each employee a certain number of days off, typically 1 to 2 weeks each year. Other companies require employees to earn vacation days by working. For instance, an employee may earn 2 hours of vacation each pay period. Many companies require employees to work for them for a certain period of time, like 6 months to a year, before becoming eligible for paid vacation. Some companies allow employees to carry over their unused vacation from year to year. Others have a use-or-lose policy. Many businesses pay their employees for a holiday even if they don't work that day. Typical paid holidays are Christmas Day, Thanksgiving Day, Fourth of July, Labor Day, and Memorial Day. Sometimes New Year's Day, Veterans' Day, and Presidents' Day are also paid holidays. Employees who work on a paid holiday may receive a higher pay rate on that day—sometimes double or more than double the regular rate.

# Benefits & Incentives

- **Insurance Plans**
- **Paid Vacation and Holidays**
- **Paid Sick Days**
- **Profit Sharing**
- **Bonuses**
- **Matching Retirement Contributions**
- **Savings Plans**

Another benefit offered by many companies is paid sick days. When a part time employee is sick and misses work, he or she does not usually get paid for that day. Full time employees, however, may be paid even when they miss work if their employer offers paid sick days. Employees typically receive 3 to 10 days of paid sick leave each year. Again, how the sick days are earned and how they carry over each year varies by company.

Profit sharing lets employees get part of a company's profits at the end of the corporate year. This is a benefit and an incentive. Remember, an incentive is motivation for a person to work harder in order to get a reward of some type. When a company offers profit sharing, they are giving employees the incentive to work harder to make more profit for the company because these employees will receive a part of that profit. The more the company makes, the more the employees make!

Bonuses were mentioned earlier in this presentation as a form of earned income. Bonuses are also an incentive that businesses use to get their employees to work harder. Bonuses are extra money that employees receive when they meet a goal or go above and beyond what is required of them. Companies that offer bonuses to their employees do so in order to increase employee productivity.

Some companies offer matching retirement contributions as an employee benefit. This means that if an employee puts 2% of his or her gross pay into a retirement account, the employer will also put that same amount in the employee's retirement account as well. There is usually a limit to how much the employer will match though, typically 6%.

Another employee benefit is a savings plan. Employees can elect to participate in the company-sponsored plan by having money deducted from each paycheck to go into a savings account. The money earns interest at a rate that is usually higher than the rate offered by a commercial bank.

# Benefits & Incentives

- **Insurance Plans**
- **Paid Vacation and Holidays**
- **Paid Sick Days**
- **Profit Sharing**
- **Bonuses**
- **Matching Retirement Contributions**
- **Savings Plans**
- **Parking**
- **Employee Discounts**
- **Free Travel or Merchandise**
- **Child or Elder Care**

In some areas, employees may have to pay for parking. Businesses in these areas may offer free or reduced cost parking to their employees, which saves the employee money because he or she doesn't have to pay to park while at work. Businesses may also offer designated parking lots to their employees. This eliminates employees having to park elsewhere and walk to work.

Employers that sell or distribute merchandise may offer free or discounted merchandise to their employees. For example, if you work at Target, you may receive a 20% discount on anything you buy at Target. Employee discounts are considered to be a benefit. Some employers offer the incentives of free travel or free merchandise. For example, a top salesperson for a certain time period may receive a trip as a reward. This type of competition creates an incentive for employees to work harder in order to receive the prize of free travel or merchandise!

Another benefit that employers may offer is child or elder care. With this type of benefit, a company may pay part or all of the expenses that an employee incurs in providing care for young children or elderly parents. By providing this benefit, the employer enables employees to come to work even though they have children or elderly parents to care for. Child and elder care can be very expensive, so this benefit can relieve a financial burden and allow the employee to afford quality care for his or her loved ones.

Offering benefits to employees costs businesses a lot of money. When you are considering taking a position, you need to consider more than just the salary. A good benefits package can add up to more than just a larger salary. The more benefits that a company provides, the fewer things you have to pay for out of your own pocket, which results in more money in your pocket. Another thing you should consider when thinking of benefits, is that benefits are generally not taxable, except bonuses and other cash benefits. Larger companies typically offer more benefits to their employees. Some even have a cafeteria-style benefits selection that lets you choose which benefits are best for you. Be sure to consider benefits when deciding which company you want to work for.