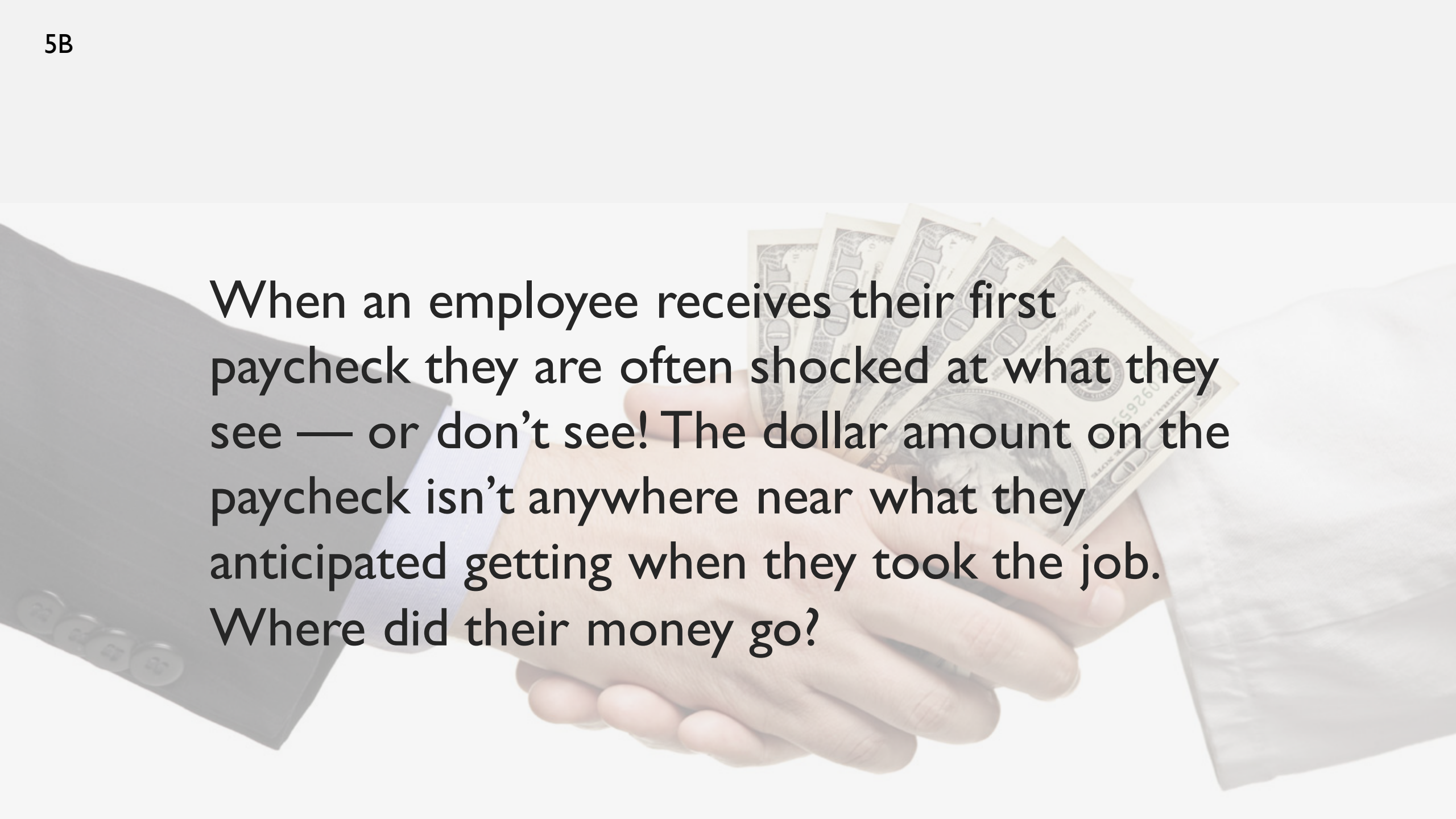


HONEY, THEY SHRUNK MY PAYCHECK

Lesson 5

A hand holding a fan of US dollar bills, with the text overlaid on the image.

When an employee receives their first paycheck they are often shocked at what they see — or don't see! The dollar amount on the paycheck isn't anywhere near what they anticipated getting when they took the job. Where did their money go?

I. DEDUCTIONS FOR TAXES

- *Federal, state, and often local governments all get a piece of your paycheck pie before you see any of it.*
 - *They collect their money through tax withholdings made by the employer.*
- 1. **Federal Income Tax.**
 - ❖ The IRS requires employers to withhold income taxes from an employee's gross pay.
- 2. **State Income Tax.**
 - ❖ Most states require an employer to withhold state income tax from an employee's gross pay.
- 3. **Social Security Tax.**
 - ❖ Under FICA, an employer is required to withhold Social Security tax from their employee's paychecks.
 - ❖ For this, employers deduct a flat rate of 6.2% of the employee's paycheck right off the top
- 4. **Medicare Tax.**
 - ❖ FICA also requires employers to deduct taxes for Medicare.
 - ❖ Everyone who earns a paycheck in the U.S. pays at least 1.45% of their earnings to Medicare tax.
- 5. **State Disability Insurance Tax..**
 - ❖ Provide an employee with compensation in the event they get sick or injured away from their job
- 6. **Local Taxes.**
 - ❖ Municipality tax to fund civic improvements such as building a local library or making water quality improvements.

II. DEDUCTIONS FOR EMPLOYEE BENEFITS

- *Deductions are taken for the following employee benefits:*
 - 1. Healthcare, Vision, and Dental insurance.**
 - 2. Retirement plans.**
 - 3. Life insurance.**
 - 4. Flexible Spending**

III. HOW TO DECODE A PAYCHECK STUB

Gross – Total earnings before deductions for taxes or benefits

Net – Earnings after deductions

Current – Earnings in this pay period

YTD – Year-To-Date

REG – regular hours worked

OT – overtime hours worked

VAC – vacation time paid

SICK or FL – sick or family leave time paid

FICA – Social Security paid by employee

FICA-MED – Medicare deductions

Fed – Withholding for Federal Income Tax

SWT or State – Withholding for State Tax

OASDI – Old Age Survivors and Disability Insurance; Social Security

LT or Local Tax – County and/or City Tax deductions

WC or Work Comp – Worker's Compensation contribution, usually paid by employer

INS or MED – insurance or medical savings account deductions

Life – Deduction for life insurance

401K or Ret – contribution to tax retirement account

Garnish – garnishment; money taken from employee's check due to debt collection or judgment

THE BIG PICTURE

- By the time your paycheck gets to you, many bites have been taken out of it to pay for income taxes and your share of the cost of employee benefits. Federal, state, and local taxes are paid via withholding. The goal of withholding is for the employee to pay their annual income taxes in increments to avoid a big tax bill at the end of the tax year. Employees are responsible for paying a percentage of the cost of some of their benefits which is done through deductions. Some deductions are made before income taxes are withheld, which has the added benefit of reducing the employee's taxable income. When you begin earning a paycheck, consult an expert such as an accountant or financial planner so you can make informed decisions about taxes, withholding, deductions, and benefits.

PONDER & PREDICT

- These days, many companies are multinational, meaning they are headquartered in one country with branches and offices in another or several other countries. GenZ is highly globally mobile, so it's quite possible that one day you will pursue a career overseas. What's it like to work overseas? What opportunities are there and how can you find them? What are the challenges of working overseas?