

UNDERSTANDING YOUR PAYCHECK

Most employers pay their employees by check and, for many people, receiving that check is a very satisfying experience! Some people, however, are confused about why their check is less than they expected.

To avoid unwelcome surprises, you should know that there are a number of deductions that are taken from your paycheck. Your check stub (attached to your check) will identify your **gross pay**, which is the total amount of money that you earned, and your “take-home pay” or **net income**, the amount that is left for you after all the deductions are taken.

The standard payroll deductions are:

- Federal income tax
- State income tax
- Social Security/Retirement

Other possible deductions:

- Health and hospital insurance
- Life insurance
- Union dues

Keep your check stubs!!! They are an important record of your earnings and deductions.

PAYROLL CHECK	CARSON'S DEPARTMENT STORE 123 Elm Street Anytown, MA 01234	51-42 321
<i>Pay to the Order of</i>	<i>JESSE SMITH</i>	July 10, 2005
ONE HUNDRED FORTY-FIVE AND SIXTY-TWO CENTS		\$ 145.62
BOSTON NATIONAL BANK Boston, Massachusetts 0:075341 2090 : 231112 : 1		<i>Ροβεργ Ω. Χαρσον</i> Robert W. Carson, President

Below is a sample payroll check stub. Often, a paycheck stub will also include year-to-date totals on all earnings and deductions, a breakdown of the hourly wage(s), and other necessary information.

CARSON'S DEPARTMENT STORE		Date of Issue: 10 July 2005	
NAME: JESSE SMITH		Pay Period: 7/1/05 - 7/8/05	
EMP. #: 504		Check #: 324	
SS#: 001-01-0011			
Regular Hours: 30	GROSS EARNINGS:	\$202.25	
Overtime Hours: 0	Current		
<u>Deductions</u>			
Hourly Rate: \$6.75	Federal Tax	34.38	
Overtime Rate: \$8.00	State Tax	8.10	
	FICA	14.15	
	NET EARNINGS	\$145.62	

Jesse's net pay, his take home pay, is \$145.62. Although he earned \$202.25 for the week of July first through eighth, his employer is required to deduct \$34.38 for Federal tax, \$8.10 for State tax, and \$14.15 for F.I.C.A. (Social Security). This leaves Jesse with \$145.62 for himself.



ACTIVITY

Take a look at your paycheck and answer the following questions

What is your gross income?

How much do you pay in Federal taxes?

How much do you pay in State taxes?

How much do you pay to F.I.C.A.?

Do you have any other deductions? If so, describe.

What are your net earnings?

THE W-4 FORM

When you start a job, you are asked to complete a W-4 Form so your employer can withhold the correct amount of Federal income tax. Read the instructions and fill in the sample on this and the following pages. Complete State Form M-4 (see page 92) only if you claim a different number of exemptions for Massachusetts and United States income taxes. If you have questions call, your local Internal Revenue Service Office, or call 1-800-424-3676 (toll free).

FILING TAXES

Everybody who earns money (unless it is tax free) has to file for taxes. If you fail to do so, you might be prosecuted by the IRS (Internal Revenue Service, an agency responsible for tax collection). At the end of each year, your employer will send you a W-2 form, which lists the amount of money you have earned and the deductions taken out of your paycheck during that year.

To file your taxes, you will need to obtain the W-2 form and both a federal and a state income tax form. These are usually available, along with an instructional brochure, at a post office or bank and often mailed directly to your residence. You can either file your own taxes (utilizing the information on your W-2 and by following the instructions provided in the instructional brochure) or seek out professional help. In any event, be aware of the deadlines associated with filing taxes! Depending on your status, you will either get a refund by mail or you may have to pay out additional taxes that were not collected through your paychecks.



ACTIVITY

Obtain an instructional booklet and the appropriate forms and practice filing taxes with your social worker, foster parent, or group care staff. These can be found by going to your local library, Internal Revenue Service office or visit their website at www.irs.gov. They have an entire section on forms that you can download electronically.