

Paychecks & Benefits Unit

Gross Pay

Gross Pay--is the total or agreed-upon rate of pay *before* any deductions are made.

Gross Pay

Annual Salary

Annual salary is usually divided into equal amounts paid each month or pay period.

Example: Annual Salary 12,000 divide by 12 months = 1,000 per month.

Pay Periods

- Monthly (gross pay ÷ 12)
- Semi-monthly (gross pay ÷ 24)
- Bi-weekly (gross pay ÷ 26)
- Weekly (gross pay ÷ 52)
- Hourly (gross pay ÷ 2080)

Annual Salary Pay Periods

Hourly Wages

Hourly Wages--a record is kept of the hours you work, and the number of hours then is multiplied by your pay rate.

Example: Rate is \$7.50 per hour and you worked 40 hours.

 $7.50 \times 40 = 300.00$

Overtime

defined as hours worked beyond the regular hours (over 40 hours in a week) often referred to as time and a half.

40 hours x \$7.50 = \$300.00 5 hours x \$11.25 = \$56.25

Gross pay is \$356.25

Hourly wages Overtime

Incentive Pay

Money offered to encourage employees to strive for higher levels of performance.

Deductions

Required by law

- federal income tax (tax tables)
- social security x 6.2% of gross pay
- Medicare x 1.45% of gross pay
- state income tax (tax tables-not all states)

You must always receive a detailed list of all deductions taken from your gross pay-pay stub

Deductions may not be withheld without your written consent except by court order.

Incentive Pay Deductions

Federal and State Income Taxes are withheld based on the following 4 things:

- Pay period (how often you get paid)
- Marital status (married or single)
- Gross Income
- Allowances (based on your W-4)

Net Pay

The amount left from gross pay after all deductions are subtracted.

Regular wages or salary + overtime = gross pay

Gross pay - deductions = net pay

Income Taxes Net Pay

Employer-Sponsored Savings Plan (401K/403B)

Employee makes contribution to his/her own account and employer <u>may</u> also contribute equally or a percentage.

The benefit is that the employee is not taxed on this contribution for their retirement until they draw from it. Penalty if you draw early.

How does taking advantage of a 401K Plan or a 403B Plan affect the amount I pay in income taxes?

Federal and state income taxes I pay will be reduced. This is because federal and state income taxes are both based on my *adjusted gross pay* when I contribute to a 401K/403 plan.

Social security, medicare, and savings are based on gross pay.

Tax Deferred

Income that will be taxed at a later time.

Tax Exempt

Income not subject to tax at

Tax Deferred/Exempt

Flexible Spending Plan

Allows employee to shelter income from taxes and set the amount aside for medical expenses NOT covered by insurance and child care.

http://en.wikipedia.org/wiki/Flexible_spending_account

http://www.kiplinger.com/columns/ask/archive/new-rules-for-flexible-spending-accounts.html

Flexible Spending Plan

Examples of Items to be "Flexed"

- Vision
- Chiropractor
- Medical miles
- Dental
- Daycare
- Prescription co-pays
- Glasses/contacts
- Acupuncture

How does setting up and contributing to a Flexible Spending Plan affect the amount I pay in income taxes and social security tax and medicare tax?

All of the required taxes will be reduced

because they will be computed on adjusted gross pay.

Savings is still based on gross pay.

Net Pay Practice Flex

Flex Items

http://www.irs.gov/pub/irs-pdf/tw4.pdf

W-4

This is a form that you fill in when you are hired that tells your employer how many allowances you are claiming.

The more allowances a person claims on his or her W-4 statement, the less the amount of tax the employer will withhold or deduct from gross pay.

http://www.irs.gov/pub/irs-pdf/fw4.pdf

Form I-9 Employment Eligibility Verification

The purpose of this form is to document that each new employee (both citizen and noncitizen) hired after November 6, 1986, is authorized to work in the United States.

http://www.uscis.gov/files/form/i-9.pdf

W-4 19

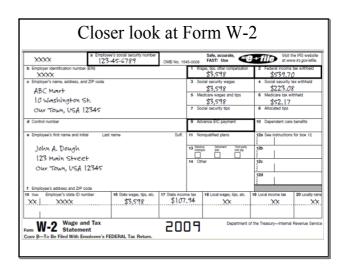
W-2

This is a form that totals all of the withholdings from your gross pay that you receive in January.

You should always check for accuracy; keep your last pay stub of the year and compare against your W-2.

http://www.irs.gov/pub/irs-pdf/fw2.pdf

W-2



W-2 Complete

Benefits Required by Law

- Unemployment Compensation
- Workers' Compensation
- Social Security—match unless self employed
- FMLA --Family Medical Leave Act

http://www.policyalmanac.org/social_welfare/archive/unemployment_colmpédisativiseshinglov/dwd/publications/wc/WKC-7580.htm#intro

Required Benefits

Fringe Benefits

Forms of employee compensation in addition to pay; an advantage of these is that most are not taxed

This is changing due to our economy.

 $http://www.cbsnews.com/8301-505125_162-47540405/google-job-perks-top-10-reasons-we-sto-work-there/\\$

Fringe Benefits

Optional Benefits and Incentives

- Profit sharing
- Paid vacation/holidays
- Employee Services
- Child Care & Sick Pay

Optional Benefits and Incentives

- Leave of absence
- Bonuses/stock options
- Employer saving plans (401K/403B)

Optional Benefits Optional Benefits

With a 403B Retirement plan, employees must participate.

Also, health insurance is tax free if obtained through your employer.

Vacation days do not count toward overtime.

In the Health field, overtime is calculated as anything over 8 hours per day; not over 40 hours per week.

and Incentives

Optional Benefits

Insurance

- -Health insurance
- -Life insurance
- -Dental insurance
- -Vision insurance

Extra Pay Info Optional Benefits

Cafeteria-Style Benefits

Allows workers to base their job benefits on personal needs. (Depends on age, family situation, health, lifestyle)

Health-Savings Plan

 $http://www.irs.gov/publications/p969/ar02.html\#en_US_2010_publink1000204020 \\ \blacksquare$

http://en.wikipedia.org/wiki/Health_savings_account

Cafeteria Benefits HSA

All things have an

opportunity cost

Giving up something <u>NOW</u> in return for something <u>BETTER</u> later on.

Or sometimes just sacrifices.

FSA-125-1.pdf

Federal Tax Tables 2011.pdf

Employee Withholding Sheet.doc