



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.

Annual Salary

## Pay Periods

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

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.

$$\$7.50 \times 40 = \$300.00$$

Hourly wages

## Overtime

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

$$40 \text{ hours} \times \$7.50 = \$300.00$$

$$5 \text{ hours} \times \$11.25 = \$56.25$$

Gross pay is \$356.25

Overtime

## Incentive Pay

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

Incentive Pay

## 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.

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)

Income Taxes

## 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

Net Pay

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

**Employee** makes contribution to his/her own account and employer may 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.

401K

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**.

Net Pay Practice 401

## Tax Deferred

Income that will be taxed at a later time.

## Tax Exempt

Income not subject to tax at all.

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://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

Flex Items

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

<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>

W-4

## 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>

I-9

## 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

## Closer look at Form W-2

XXXX		Employee's social security number 123-45-6789		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile.	
b Employer identification number (EIN) XXXX		1 Wages, tips, other compensation \$3,598		2 Federal income tax withheld \$223.08	
c Employer's name, address, and ZIP code ABC Mavt 10 Washington St. Our Town, USA 12345		3 Social security wages \$3,598		4 Social security tax withheld \$223.08	
		5 Medicare wages and tips \$3,598		6 Medicare tax withheld \$52.17	
		7 Social security tips		8 Allocated tips	
d Control number		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial John A. Dough		Last name 123 Main Street		11 Nonqualified plans	
		Our Town, USA 12345		12a See instructions for box 12	
f Employee's address and ZIP code		13 Health plans		12b	
15 State Employer's state ID number XX   XXXX		16 State wages, tips, etc. \$3,598		12c	
		17 State income tax \$107.94		12d	
		18 Local wages, tips, etc. XX		19 Local income tax XX	
				20 Locality name XX	

Form **W-2** Wage and Tax Statement **2009** Department of the Treasury—Internal Revenue Service  
Cover B—To Be Filed With Employee's FEDERAL Tax Return.

W-2 Complete

## Benefits Required by Law

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

[http://www.policymanc.org/social\\_welfare/archive/unemployment\\_compensation.htm](http://www.policymanc.org/social_welfare/archive/unemployment_compensation.htm)  
<http://www.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-w-to-work-there/](http://www.cbsnews.com/8301-505125_162-47540405/google-job-perks-top-10-reasons-we-w-to-work-there/)

Fringe Benefits

## Optional Benefits and Incentives

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

Optional Benefits

## Optional Benefits and Incentives

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

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.

Extra Pay Info

## Optional Benefits and Incentives

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

Optional Benefits

## Cafeteria-Style Benefits

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

[http://www.cbsnews.com/8301-505125\\_162-47540405/google-job-perks-top-10-reasons-we-w-to-work-there/](http://www.cbsnews.com/8301-505125_162-47540405/google-job-perks-top-10-reasons-we-w-to-work-there/)

Cafeteria Benefits

## Health-Savings Plan

[http://www.irs.gov/publications/p969/ar02.html#en\\_US\\_2010\\_publink1000204020](http://www.irs.gov/publications/p969/ar02.html#en_US_2010_publink1000204020)

[http://en.wikipedia.org/wiki/Health\\_savings\\_account](http://en.wikipedia.org/wiki/Health_savings_account)

HSA

All things have an **opportunity cost**.  
Giving up something **NOW** in return for something **BETTER** later on.

Or sometimes just sacrifices.

Opportunity cost

## Attachments

---

FSA-125-1.pdf

Federal Tax Tables 2011.pdf

Employee Withholding Sheet.doc