
Family Economics & Financial Education

PAYCHECKS AND TAX FORMS

TAKE CHARGE OF YOUR FINANCES



WHERE DOES MY MONEY GO?

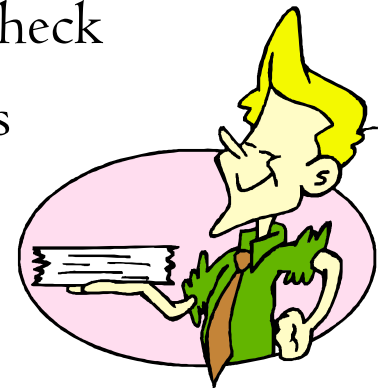
- Almost 31% of an individual's paycheck is deducted
 - Taxes are the largest expense most individuals will have
 - Therefore, it is important to understand the systematic deductions
- U.S. tax system operates on an ongoing payment system
 - Taxes are immediately paid on income earned



PAYING EMPLOYEES

Three methods employers may use to
pay employees:

- I. **Paycheck** – payment given with a paper check with a paycheck stub attached
 - Most common method
 - Employee responsible for handling the paycheck
 - Immediately see payroll stub and deductions



PAYING EMPLOYEES CONTINUED

2. **Direct Deposit** - employers directly deposit employee's paycheck into the authorized employee's depository institution account
- Employee receives the paycheck stub detailing the paycheck deductions
 - Most secure because there is no direct handling of the check
 - Employee knows exactly when paycheck will be deposited and available

PAYING EMPLOYEES CONTINUED

3. Payroll Card - payment electronically loaded onto a plastic card

- Funds are directly deposited by an employer into an account at a depository institution that is linked to the payroll card
 - Parties involved:
 - » Employer
 - » Employee
 - » Depository institution
- Use the payroll card for ATM withdrawals or to make purchases

PAYROLL CARD



- There are numerous fees associated with payroll cards
 - Number of fees depends upon the depository institution
 - Examples:
 - Monthly or annual fee
 - ATM fee
 - Inactivity fee
 - Fee after a specific number of transactions have been used
 - Replacement fee if the card is lost, stolen , or destroyed
 - Load fee (when funds are placed on the card account)
 - Point of sale (POS) fee for using the card at a POS terminal, or an electronic payment processor

BENEFITS OF USING PAYROLL CARDS

- Employers
 - Lower internal costs
 - Costs associated with producing, handling, and distributing pay checks is eliminated
- Depository Institutions
 - Profit from the fees charged to employees, employers, and merchants
- Employees
 - Safer than carrying large amounts of cash
 - Unbanked employees do not have to pay check cashing fees
 - Americans roughly spend \$8 billion annually in check cashing fees
 - Can access electronic monthly statement of transactions
 - Can receive a second card
 - Give allowances to children
 - Send money internationally
 - Easily make online purchases

CONSUMER PROTECTION WITH PAYROLL CARDS

- Regulation E – Electronic Fund Transfer Act
 - Protects payroll card holder from fraudulent charges on lost or stolen cards
 - Card holder is only liable for \$50 if a lost or stolen card is reported within 48 hours
 - Over four million paychecks are stolen annually with no protection to employees
 - Regulation E provides exceptional safety and protection for payroll card holders

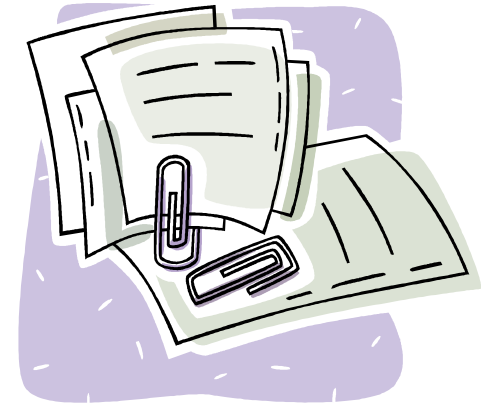
TAXES

- **Taxes** – Compulsory charges imposed on citizens by local, state, and federal governments.
 - Used to provide public goods and services.
 - Largest amount of taxes a person pays is on his/her income.
- **Internal Revenue Service (IRS)** – Collects federal taxes, issues regulations, and enforces tax laws written by the United States Congress.

STARTING A NEW JOB

To receive a paycheck, an employee must:

- Complete a Form W-4
 - Employee's Withholding Allowance Certificate
- Complete a Form I-9
 - Employment Eligibility Verification



FORM W-4

Employee's Withholding Allowance Certificate

- Determines the percentage of gross pay which will be withheld for taxes
- **Allowances**
 - Used to determine the amount of federal taxes withheld from the paycheck
 - A person may claim a personal allowance if no one else claims the person as a dependent
 - **Dependent** – a person who relies on the taxpayer for financial support

STEPS TO COMPLETING A FORM W-4

- Print or type legal name on **Line 1** and home address directly below the name
- Write Social Security number on **Line 2**
- On **Line 3**, check the appropriate box to indicate marital status
- Enter a zero on **Line 5** if not claiming any allowances
- Sign name and date the form before giving it to the employer
- Keep a copy for personal records

FORM I-9

Employment Eligibility Verification Form

- Used to verify the eligibility of individuals to avoid hiring undocumented workers or others who are not eligible to work in the United States
- Must provide documentation which establishes identity and employment eligibility
 - Examples include driver's license, passport, Social Security card, and birth certificate

Family Economics & Financial Education

READING A PAYCHECK



PAYCHECK STUB

<i>On-The-Go</i>				
Employee Beakens, Joe	Employee Identification 201-92-4856		Check # 164	Check Amount \$1,102.98
Employee Address 293 Michael Grove Billings, MT 59102				
	Pay Type- Gross Pay	Deductions	Current	Year-to-date
	\$1,353.33	Federal Withholding	\$106.00	\$503.46
		State Withholding	\$40.82	\$117.72
		Fed OASDI/EE or Social Security	\$83.91	\$636.00
		Fed MED/EE or Medicare	\$19.62	\$244.92
		Medical	\$0.00	\$0.00
		401K	\$0.00	\$0.00
		Totals	\$250.35	\$1,502.10
<i>Pay Period 6/11/2004-7/11/2004</i>				

Paycheck Stub

- A document included each pay period which outlines paycheck deductions

PERSONAL INFORMATION

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<i>Pay Period 6/11/2004-7/11/2004</i>				

Personal Information

- States the employee's full name, address, and Social Security or Employee Identification number
- Always check to ensure this information is correct

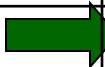
PAY PERIOD

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Pay Period 6/11/2004-7/11/2004				

Pay Period

- The length of time for which an employee's wages are calculated; most are weekly, bi-weekly, twice a month, or monthly
- The last day of the pay period is not always payday to allow a business to accurately compute wages

GROSS PAY

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Pay Period 6/11/2004-7/11/2004				

Gross Pay

- The total amount of money earned during a pay period before deductions
 - This is calculated by multiplying the number of hours worked by the hourly rate
 - If a person is on **salary**, it is the total salary amount divided by the specified number of pay periods


NET PAY

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<i>Pay Period 6/11/2004-7/11/2004</i>				

Net Pay

- The amount of money left after all deductions have been withheld from the gross pay earned in the pay period

DEDUCTIONS

<i>On-The-Go</i>				
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<i>Pay Period 6/11/2004-7/11/2004</i>				

Deductions

- The amount of money subtracted from the gross pay earned for mandatory systematic taxes, employee sponsored medical benefits, and/or retirement benefits

FEDERAL WITHHOLDING TAX

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<i>Pay Period 6/11/2004-7/11/2004</i>				

Federal Withholding Tax

- The amount required by law for employers to withhold from earned wages to pay taxes
- The amount of money deducted depends on the amount earned and information provided on the Form W-4
- Largest deduction withheld from an employee's gross income

STATE WITHHOLDING TAX


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State Withholding Tax

- The percentage deducted from an individual's paycheck to assist in funding government agencies within the state
- The percentage deducted depends on the amount of gross pay earned

FICA

(FEDERAL INSURANCE CONTRIBUTION ACT)

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FICA

- This tax includes two separate taxes: Fed OASDI/EE or Social Security and Fed MED/EE or Medicare
- These two taxes can be combined as one line item or itemized separately on a paycheck stub

SOCIAL SECURITY

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Social Security

- Nation's retirement program, helps provide retirement income for elderly and pays disability benefits
- Based upon a percentage (6.2%) of gross income, employer matches the contribution made by the employee


MEDICARE

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Medicare

- Nation's health care program for the elderly and disabled, provides hospital and medical insurance to those who qualify
- Based upon a percentage (1.45%) of gross income


MEDICAL

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Medical

- The amount taken from the employee's paycheck for medical benefits
- Occurs when the employer has a medical plan for employees but does not pay full coverage for his/her benefits


RETIREMENT PLAN

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Retirement Plan

- The amount an employee contributes each pay period to a retirement plan
- A specified percentage of the contribution is often matched by the employer
- May be a 401K, a state, or local retirement plan

YEAR-TO-DATE

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Year-to-Date

- Total of all of the deductions which have been withheld from an individual's paycheck from January 1 to the last day of the pay period indicated on the paycheck stub