

Your Paycheck

Where Does the Money Go?

If you are an employee, you are earning a paycheck and must pay taxes on your earnings. You'll quickly discover that the salary you've agreed to work for is not exactly what you end up bringing home — taxes, benefits, and other deductions all claim a portion of your paycheck before you ever see it.

The amount on my actual paycheck is less than I thought. What makes up the difference?

When you receive your job offer, you are given a gross salary figure. That gross salary is then divided by the number of pay periods – usually weekly, biweekly or monthly. But ultimately what you receive is your net salary – your gross salary less taxes, benefits and retirement contributions.

What makes up the difference between my "gross salary" and my "net salary" amounts?

There are a variety of deductions taken from your paycheck before it gets to you. Employers are required to pay payroll taxes at the federal, state and local levels on your behalf, and those payments show up as deductions. In addition, your paycheck may show other deductions for healthcare, insurance, retirement plan contributions, childcare assistance and charity.

When starting a new job, how do I figure out how many "allowances" to take?

Upon starting your job, you will be required to complete an IRS Form W-4 for your employer, which indicates the amount of federal income tax to withhold from your salary. The amount of federal tax withheld depends on how many allowances you claim on your W-4. If you are single, without a lot of itemized deductions, you will probably claim zero or one. If you are married or have children, you would more than likely claim more. Depending on the state where you live, you may also have to fill out a form for state tax withholding purposes.

How do I decipher my pay stub?

If you look at the sample paycheck below, you will see that a paycheck includes important information such as your name, the pay period, and the check date and number, in addition to the net salary amount. If you have direct deposit, you will generally receive what looks like a paycheck either in the mail or via email so that you can see that the deposit has been made and also receive the attached detail on deductions.

Most paycheck notices will include information about your current paycheck and year-to-date amounts. The year-to-date amounts are helpful for budgeting and income tax planning throughout the year.

What is FICA (Federal Insurance Contribution Act) and why am I paying it?

FICA is a government trust that funds Social Security and Medicare. The amount you pay to FICA depends on your income – the higher your income, the higher your FICA payment. Currently, the Social Security tax rate for wages paid is 6.2 percent of gross salary to a limit of \$106,800, resulting in a maximum of \$4,485 for the year. This may be reflected on your paystub as OASDI (Old Age Survivor Disability Income). Medicare (MWT or MED) withholdings are used to fund your Medicare coverage when you reach age 65. The Medicare tax rate is 1.45 percent of your gross income and applies to your entire salary.

What if I receive income in addition to my salary?

If you have investment income or are earning money independent of your job, be sure to adjust your withholding to cover the tax on the extra income by having an additional amount withheld from each paycheck. You may also choose to make quarterly estimated tax payments. Your tax advisor can assist you in determining which is best in your particular situation.

I'm self-employed, so taxes are *not* automatically deducted from my paycheck. What do I do?

If you are self-employed, you are required to pay your own taxes on your income tax return instead of via paycheck, so you need to plan for that. Your U.S. Trust team can assist you in estimating your income taxes for the year and can advise you on how to make your quarterly payments.

Sample Paycheck

1 Acme Corporation 1000 Main Street Capital City, ST 99999			Pay Group: Full-time, Non-Union Pay Begin Date: 01/16/2012 Pay End Date: 01/31/2012		Business Unit: Sales Advice #: 1006795 Advice Date: 1/31/2012	
2 Tracy Smith 123 Oak Street Hometown, SX 12345 SSN:		Employee ID: Department:		3 TAX DATA: Federal State Marital Status: Single Single Allowances: 0 1 Additional Pct.: Adtl. Amt.: 15.00		
4 HOURS AND EARNINGS			5 TAXES			
Description	Current Earnings	YTD Earnings	Description	Current	YTD	
Regular	2,062.53	4,125.06	Fed Withholding	376.73	753.46	
			Medicare	28.94	57.87	
			FICA	123.74	247.46	
			State Withholding	87.96	175.92	
Total:	2,062.53	4,125.06	Total	617.37	1,234.71	
6 BEFORE-TAX DEDUCTIONS		7 AFTER-TAX DEDUCTIONS		8 EMPLOYER-PAID BENEFITS		
Description	Current	YTD	Description	Current	YTD	
Healthcare	75.50	151.00	ABC Life Insurance	29.70	59.40	
Dental	14.00	28.00	United Way	1.00	2.00	
Long Term Disability	4.75	9.50				
Total	94.25	188.50	Total	30.70	61.40	
9 TOTAL GROSS		FED TAXABLE GROSS		FICA GROSS		
Current:	2,062.53	1,995.67	1,995.67	617.37	124.95	
YTD:	4,125.06	3,991.34	3,991.34	1,234.71	249.90	
				TOTAL DEDUCTIONS		
				NET PAY		
				1,320.21		
				2,640.45		
10 NET PAY DISTRIBUTION						
				Advice #1006795		
				1,320.21		
				Total		
				1,320.21		

Description of Sample Paycheck

1	Pay Information	Pay period, check date and number, etc.
2	Employee Information	Your name, address, Social Security number, company ID number, department, etc.
3	Tax Data	Marital status, allowances/exemptions/additional tax withholding information. <i>Note: This data comes from the W-4 form that you will fill out upon beginning a new job.</i>
4	Hours & Earnings	Earnings for this pay period and for the year to date (YTD).
5	Taxes	Fed Withholding (federal taxes), Medicare, FICA, State Withholding
6	Before-tax Deductions	Varies by individual but may include payments for medical/dental plans and flexible-spending accounts.
7	After-tax Deductions	Amounts taken out after taxes, such as for life insurance, donations to United Way or other charities, and union dues.
8	Employer-paid Benefits	Contributions made on your behalf by your employer. This is informational only, as this money does not come out of your paycheck.
9	Totals	Current and year-to-date information on earnings, taxes, and deductions.
10	Net Pay Distribution	Net pay and accounts to which the pay has been directly deposited.

Note: Not all paychecks will look like [this](#). This is intended to be used for basic information only.

Why is My Paycheck Smaller? Understanding Your 2013 Paycheck

From *Money, Life & More* website (2013): www.moneylifeandmore.com

If you've received your first paycheck of 2013, you've likely realized that your 2013 paycheck is smaller than your 2012 paychecks were. It is a sad realization but there are a few reasons why your paycheck may have gotten smaller in 2013.

Congress passed legislation to avoid the fiscal cliff and to avoid an increase in income tax rates on the majority of taxpayers. The key is that they only prevented income tax rates from rising (assuming you make less than \$400,000 as an individual or \$450,000 for married taxpayers).

The most likely reason your paycheck is smaller in 2013 is the social security tax. In 2011 Congress passed a payroll tax cut in order to increase the take home pay of employees and help the economy. The employee portion of the social security (FICA) tax was reduced from 6.2 percent to 4.2 percent. Initially it was only supposed to last until the end of 2011 but it was extended until the end of 2012.

Over the last two years most people forgot about the payroll tax cut and incorporated this money into their budget but the tax cut was never a permanent reduction in the tax. When Congress passed the latest fiscal cliff legislation in early January 2013 they left out the payroll tax cut extension and the social security (FICA) tax went back to the normal rate of 6.2 percent from the reduced rate of 4.2 percent.

This expired payroll tax means that you actually had a tax increase of 2 percent in your paycheck compared to last year. No one likes getting a smaller paycheck but it is extremely unlikely that they'll reenact the social security payroll tax cut so you'll need to adjust to your new smaller paycheck.

If you pay for your benefits like health and dental insurance with deductions out of your paycheck it is possible that your benefits cost more in 2013 than in 2012.