

Payroll Deductions and Earnings Statements

Objectives

In this lesson you will:

- ✓ learn and use terms related to payroll deductions
- ✓ learn to read earnings statements
- ✓ calculate net pay



Employers must deduct certain amounts from their employees' wages. These deductions usually include income tax, social security, state taxes, insurance, and any other amount that employees authorize. For example, an employee may authorize his or her employer to deduct union dues, contributions to charity, savings, or other payments.

Before we look at the deductions listed on an earnings statement, you will need to become familiar with terms related to payroll deductions. In this lesson, you will learn and use these terms.

Study the following terms.

Term	Definition
A. deduction	amount taken from your paycheck for an income tax or other payment that you approve
B. gross pay	the amount of pay you earn before deductions are taken out
C. net pay	the amount of pay that you take home after all deductions are taken out
D. withholding tax	the deduction for federal income tax
E. FICA	part of the Federal Insurance Contributions Act that requires all workers to pay part of their income to the federal government for Social Security and Medicare
F. authorize	to officially approve
G. dependent	someone who relies on you for financial support, such as a child
H. withholding allowance	the number of dependents you claim on your W-4 form
I. state tax	a special income tax collected by the state where you live
J. city tax	a special income tax collected by the city where you live; usually used for city improvement(s)



Practice Problems

Directions: Complete the following statements by selecting the BEST term from the vocabulary words.

Set A

1. San Francisco collects a ___?___ to pay for rapid transit.
2. Some employers will deduct savings from your check if you ___?___ them to do so.
3. ___?___ is the amount Mary takes home after all deductions are taken from her paycheck.
4. The state of California raises money through a ___?___ .

5. Hal's employer takes a ___?___ from his check to pay income tax.
6. ___?___ is also known as the social security tax.
7. Withholding tax, social security, and insurance are examples of ___?___ .
8. Jack claims his child as a dependent, so his ___?___ is two.
9. The total amount that Samantha earns before deductions is called her ___?___ .
10. Juan's children that he claims for his withholding allowance are his ___?___ .

Deductions

Below is an example of an **earnings statement**. It is usually part of your check or attached to the check. It shows how many hours you worked, the amount of money you earned, and the deductions from your paycheck. Always review your earnings statements for accuracy. If you find any errors or have any questions, contact your employer immediately.

Chase Sign Company								
PAY PERIOD ENDING	GROSS PAY	REGULAR HOURS	OVERTIME HOURS	TAX DEDUCTIONS				TAKE-HOME PAY
				FICA	W-H TAX	STATE TAX	CITY TAX	
August 3	167.01	20.0	0	12.78	20.50	3.34	1.67	116.12
PERSONAL DEDUCTIONS								
UNION DUES		UNITED FUND		INSURANCE		CREDIT UNION		
5.00		1.00		2.60		4.00		
EARNINGS STATEMENT								
DETACH AND RETAIN FOR YOUR RECORDS								



Answer the following questions using the earnings statement shown.

1. What is the name of the business? _____
2. What is the gross pay? _____
3. How many hours did the employee work? _____
4. What are the two main types of deductions listed on the statement?

5. What is the deduction for FICA tax? _____
6. What is the deduction for withholding tax? _____
7. What is the deduction for insurance? _____
8. What is amount of the net pay? _____

Example 1

According to the earnings statement below, what are the total tax deductions?

Sarah's Floral Shop								
PAY PERIOD ENDING	GROSS PAY	REGULAR HOURS	OVERTIME HOURS	TAX DEDUCTIONS				NET PAY
				FICA	W-H TAX	STATE TAX	CITY TAX	
July 19	397.20	40.0	0	30.39	50.20	6.48	3.84	
PERSONAL DEDUCTIONS								
	UNION DUES		INSURANCE		SAVINGS			
	2.00		4.50		5.00			
EARNINGS STATEMENT								
DETACH AND RETAIN FOR YOUR RECORDS								

Solution

Add all of the tax deductions.

\$30.39 — social security tax

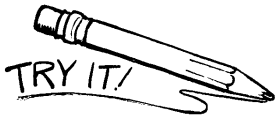
50.20 — withholding tax

6.48 — state tax

+ 3.84 — city tax

\$90.91 — total tax deductions

The total tax deductions are \$90.91



9. According to the earnings statement, what are the total personal deductions?

Net Pay

There is a difference between gross pay and net pay. **Gross pay** is the amount that an employee earns *before* taxes and other deductions. To calculate gross pay, multiply the hourly rate by the number of hours worked. Include overtime pay if applicable. **Net pay** is how much the employee earns *after* taxes and other deductions. It is also called take-home pay. To calculate net pay, subtract all deductions from the gross pay.

Example 2

Mike works part time at North Hills Autobody Repair. Find his net pay for each week in February.

	Week Ending			
	February 7	February 14	February 21	February 28
Gross Pay	\$144.00	\$206.00	\$121.65	\$187.50
FICA Tax	\$11.02	\$15.76	\$9.31	\$14.34
Withholding Tax	\$13.30	\$23.40	\$10.90	\$19.40
State Tax	\$2.88	\$9.48	\$2.74	\$3.75
City Tax	\$1.44	\$2.07	\$1.52	0
Personal Deductions	\$1.75	\$10.50	\$6.00	\$7.05
Net Pay				

Solution

First, add all of the deductions.

February 7	February 14	February 21	February 28
\$11.02	\$15.76	\$9.31	\$14.34
13.30	23.40	10.90	19.40
2.88	9.48	2.74	3.75
1.44	2.07	1.52	<u>+ 7.05</u>
<u>+ 1.75</u>	<u>+ 10.50</u>	<u>+ 6.00</u>	\$44.54
\$30.39	\$61.21	\$30.47	

Now subtract the deductions from the gross pay.

February 7	February 14	February 21	February 28
\$144.00	\$206.00	\$121.65	\$187.50
<u>- 30.39</u>	<u>- 61.21</u>	<u>- 30.47</u>	<u>- 44.54</u>
\$113.61	\$144.79	\$91.18	\$142.96

Mike's net pay was:

\$113.61	\$144.79	\$91.18	\$142.96
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Find Karla's net pay for each week in February.

	Week Ending			
	February 7	February 14	February 21	February 28
Gross Pay	\$210.00	\$182.00	\$164.26	\$203.79
FICA Tax	\$16.07	\$13.92	\$12.57	\$15.59
Withholding Tax	\$24.11	\$19.80	\$16.78	\$22.60
State Tax	\$4.20	\$3.64	\$3.28	\$4.08
Personal Deductions	\$4.00	\$4.00	\$6.50	\$4.00
Net Pay				

10. February 7

11. February 14

12. February 21

13. February 28



Practice Problems

Directions: Use a piece of scrap paper or any space available on these pages to work out the answers to these questions. Better yet, see if you can do them in your head – good practice for shopping.

Set B

Use the earnings statement below to answer the questions.

Downtown Fashions								
PAY PERIOD ENDING	GROSS PAY	REGULAR HOURS	OVERTIME HOURS	TAX DEDUCTIONS				NET PAY
				FICA	W-H TAX	STATE TAX	CITY TAX	
May 26	238.32	30.0	0	18.23	30.12	3.89	2.38	
PERSONAL DEDUCTIONS								
	CHARITY FUND		INSURANCE		CREDIT UNION			
	1.00		3.00		5.00			
EARNINGS STATEMENT								
DETACH AND RETAIN FOR YOUR RECORDS								

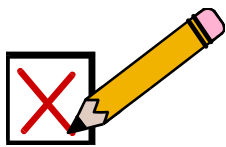
1. What is the name of the business? _____
2. What is the gross pay? _____
3. Calculate the net pay. _____
4. What are the total tax deductions? _____
5. What are the total personal deductions? _____

Set C

Find Juan's net pay for each week in June.

	Week Ending			
	June 8	June 15	June 22	June 29
Gross Pay	\$200.00	\$191.00	\$155.78	\$196.42
<i>Social Security Tax</i>	\$15.30	\$14.61	\$11.92	\$15.03
<i>Withholding Tax</i>	\$20.06	\$18.20	\$16.51	\$18.67
<i>State Tax</i>	\$4.00	\$3.82	\$3.10	\$3.92
<i>Personal Deductions</i>	0	\$2.00	0	\$2.00
Net Pay				

1. June 8
2. June 15
3. June 22
4. June 29

**Review**

1. Locate and highlight the vocabulary words and their meanings in this lesson.
2. Write one new thing that you learned from this lesson or one question that you would like to ask your mentor.

**ANSWERS TO
TRY IT**



- | | | |
|-----------------------|--------------|--------------|
| 1. Chase Sign Company | 6. \$20.50 | 11. \$140.64 |
| 2. \$167.01 | 7. \$2.60 | 12. \$125.13 |
| 3. 20 hours | 8. \$116.12 | 13. \$157.52 |
| 4. Tax and Personal | 9. \$11.50 | |
| 5. \$12.78 | 10. \$161.62 | |



Set A

- | | |
|------------------------|------------------------------|
| 1. J – city tax | 6. E – FICA |
| 2. F – authorize | 7. A – deduction |
| 3. C – net pay | 8. H – withholding allowance |
| 4. I – state tax | |
| 5. D – withholding tax | 9. B – gross pay |
| | 10. G – dependent |

Answers to Practice Problems

Set B

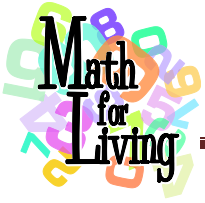
1. Downtown Fashions
2. \$238.32
3. \$174.70
4. \$54.62
5. \$9.00

Set C

1. \$160.64
2. \$152.37
3. \$124.25
4. \$156.80



End of Lesson



Circle the correct answer.

1. May an employer take deductions from your paycheck?

Yes

No

2. Which of the following are deductions an employer may take from your check?

a. taxes

b. Social Security

c. insurance

d. all of the above

3. What do they call someone who relies on you for financial support?

dependent

state tax

4. An *earnings statement* is usually part of your paycheck.

True

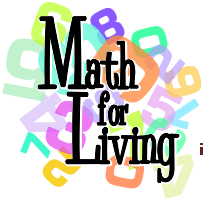
False

5. Should you contact your employer if you find errors on your earnings statement?

Yes

No

Total Correct: _____



Circle the correct answer.

1. May an employer take deductions from your paycheck?

Yes

No

2. Which of the following are deductions an employer may take from your check?

- a. taxes
- b. Social Security
- c. insurance
- d. all of the above

3. What do they call someone who relies on you for financial support?

dependent

state tax

4. An *earnings statement* is usually part of your paycheck.

True

False

5. Should you contact your employer if you find errors on your earnings statement?

Yes

No

Total Correct: _____

Explain the difference between *gross pay* and *net pay*. (not scored)
