

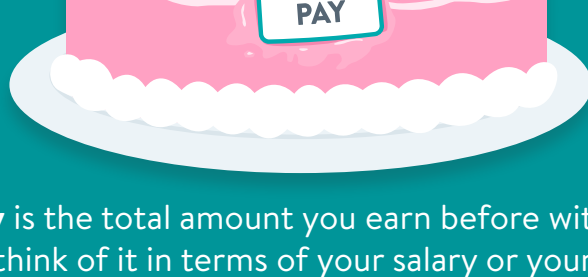
# Understanding your PAYCHECK

Your pay stub is a source of valuable information—it shows you how your income is distributed, gives you a heads-up on what to expect at tax time and allows you to set a realistic budget



## GROSS PAY vs. NET PAY

### GROSS PAY (THE DREAM)



**Gross Pay** is the total amount you earn before withholdings. You tend to think of it in terms of your salary or your hourly wage.

### NET PAY (THE REALITY)



#### WITHHOLDINGS AND DEDUCTIONS

**Net Pay** is your take-home pay (spoiler alert: it's less than your gross pay). It's what's left of your earnings after withholdings and deductions have been made.



**BUDGETING TIP**  
Don't make the rookie mistake of using your gross pay to calculate your monthly budget—use your **net pay** instead

### WITHHOLDINGS AND DEDUCTIONS

#### WITHHOLDINGS

**Withholdings** are the portion of your paycheck that your employer withholds for the government—these can also be referred to as **Involuntary** or **Mandatory Deductions**

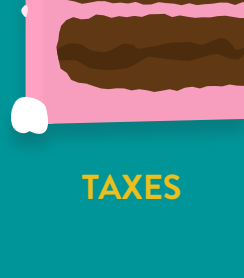
#### DEDUCTIONS

**Deductions** are other amounts that can be taken from your paycheck—you opt into these deductions; as a result, they vary from person to person

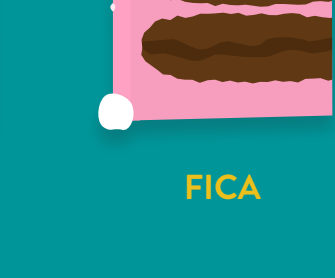


#### WITHHOLDINGS

#### DEDUCTIONS



TAXES



FICA



VOLUNTARY DEDUCTIONS



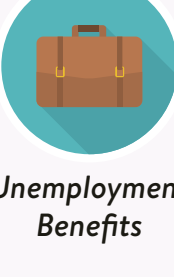
**TAKE NOTE**  
Terminology can differ: your pay stub may use the term "deduction" to refer to **both** withholdings **and** voluntary deductions

## TAXES

### FEDERAL TAXES

Federal income tax is automatically deducted from your paycheck. The amount deducted depends on the federal tax rate as well as how much money you make.

Your federal tax dollars go toward things like:



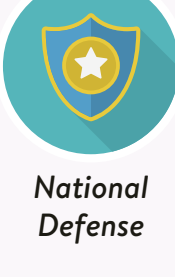
Unemployment Benefits



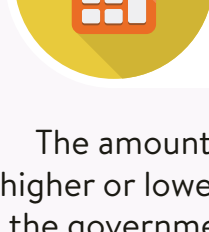
Education



Infrastructure



National Defense



**CALCULATE YOUR WITHHOLDINGS**  
Online withholdings calculators are a helpful (and free) tool that can help you better understand how tax rates affect your income

The amount of tax withheld on your paycheck might be higher or lower than the actual amount of federal tax due to the government, so you may find yourself owing additional funds or getting a refund at tax time.

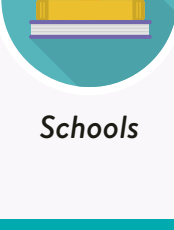


**UPDATE YOUR W-4**  
To keep your tax allowance accurate, fill out a new W-4 when your marital status changes, when you have or adopt a child, when you get a second job, when your spouse's employment situation changes or if you'll be unemployed for part of the year

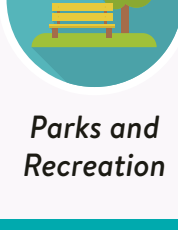
### STATE AND LOCAL TAXES

The amount withheld from your paycheck for state and local taxes varies depending on where you live

Your state and local tax dollars go toward things like:



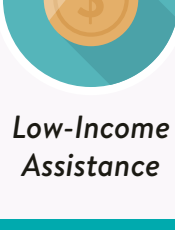
Schools



Parks and Recreation



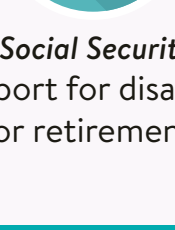
Public Transportation



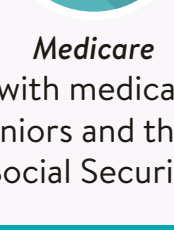
Low-Income Assistance

## FICA

FICA taxes come from the Federal Insurance Contributions Act and are used for two things:



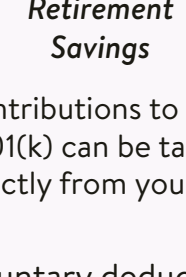
**Social Security**  
Support for disability or retirement



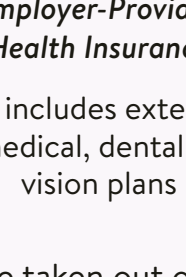
**Medicare**  
Help with medical costs for seniors and those on Social Security

## VOLUNTARY DEDUCTIONS

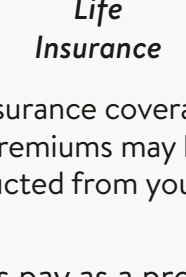
Voluntary deductions are amounts that you choose to have deducted from your paycheck—common examples include:



Retirement Savings



Employer-Provided Health Insurance



Life Insurance

Contributions to your 401(k) can be taken directly from your pay This includes extended medical, dental or vision plans Insurance coverage premiums may be deducted from your pay

Voluntary deductions can be taken out of your gross pay as a pre-tax deduction, a tax-deferred deduction or a post-tax deduction



**GET TO KNOW YOUR DEDUCTIONS**  
Reading your pay stub can serve as a reminder to make use of the coverage and benefits available to you through your employer

BROUGHT TO YOU BY



Sources: IRS, Duke University, The Balance