

LESSON 12: Net vs. Gross Income



Money Mastermind Lesson 12, Worksheet 1:

Paystub Puzzles: Putting the Pieces Together

Getting your first paycheck can be overwhelming. There are lots of details and deductions to consider, but knowing what to expect makes it easier. Below are four different paystub samples; in all of them the employees receive their paychecks through direct deposit. Use the first example as a guide to understand the deductions and then determine how each of the remaining paystubs could be revised to maximize savings.

1. When you accept a new job, you will fill out a W-4 form on which you'll determine a withholding allowance (this is how much money will go toward federal taxes from each paycheck). If at the end of the year you've overpaid, you'll receive a tax refund. If you've underpaid, you'll owe taxes.

2. Federal and state income taxes help pay for services like roads, public schools and libraries. Most but not all states have an income tax and some cities and counties do as well.

3. Medicare taxes help pay for health care costs for individuals over 65 and those with a disability.

4. Social security taxes help pay for retirement costs.

5. Health insurance deductions cover medical costs.

6. Flexible spending accounts (FSAs) allow you to set aside before-tax portions of your pay for things like childcare and medical expenses.

7. Life insurance deductions go toward a life insurance policy.

8. A 401(k) is a retirement savings account. When you put a certain percentage of your paycheck in a traditional 401(k), you don't pay income tax on that money until it is withdrawn.

9. A savings deposit deduction can be set up if you want an after-tax portion of your paycheck to go directly into a savings account.

123 Company
555 Anywhere Rd
Anywhere, USA 11111

Period Ending: 2/01/13
Pay Date: 2/14/13

Scott K Smith
Social Security: XXX-XX-1111

Taxable Marital Status: Single
Exemptions/Allowances: (1)
▪ Federal: 0 ▪ State: 0

Taxable Gross: \$520.00
Net Pay: \$410.00

Description	Rate	Hours	This Period	Year to Date
Regular	\$12.00	40	\$480.00	\$1,920.00
Overtime	\$18.00	5	\$90.00	\$360.00
Total			\$570.00	\$2,280.00

Deductions	This Period	Year to Date
Federal Income Tax (2)	\$40.00	\$160.00
State Income Tax (2)	\$10.00	\$40.00
Medicare Tax (3)	\$5.00	\$20.00
Social Security Tax (4)	\$20.00	\$80.00
Other		
Health Insurance* (5)	\$20.00	\$80.00
Medical Flexible Spending Account* (6)	\$10.00	\$40.00
Life Insurance (7)	\$5.00	\$20.00
401(k)* (8)	\$20.00	\$80.00
Savings Deposit (9)	\$30.00	\$120.00
Total	\$160.00	\$640.00

*Excluded from federal taxable wages

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Sample 1:

Dan just started working full-time and he is included on his parents' health insurance plan. He withholds the maximum amount he can, so he won't have to pay any additional taxes at the end of the year. Review Dan's paystub below and determine where he may be spending money unnecessarily and how he could use those funds to maximize his savings.

123 Company
555 Anywhere Rd
Anywhere, USA 11111

Period Ending: 3/15/13
Pay Date: 3/31/13

Dan J Jones
Social Security: XXX-XX-2222
Taxable Gross: \$1,650.00
Net Pay: \$1,245.00

Taxable Marital Status: Single
Exemptions/Allowances:
▪ Federal: 0 ▪ State: 0

Description	Rate	Hours	This Period	Year to Date
Regular	\$25.00	80	\$2,000.00	\$12,000.00
Overtime	\$30.00	0	\$0.00	\$0.00
Total			\$2,000.00	\$12,000.00

Deductions	This Period	Year to Date
Federal Income Tax	\$200.00	\$1,200.00
State Income Tax	\$30.00	\$1800.00
Medicare Tax	\$25.00	\$150.00
Social Security Tax	\$100.00	\$600.00
Other		
Health Insurance*	\$200.00	\$1,200.00
Medical Flexible Spending Account*	\$50.00	\$300.00
401(k)*	\$100.00	\$600.00
Savings Deposit	\$50.00	\$300.00
Total	\$755.00	\$4,530.00

*Excluded from federal taxable wages

How can Dan maximize his savings?

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Sample 2:

Rachelle just accepted a new job as an office assistant and will have her paychecks directly deposited with a portion going toward a 401(k). She also anticipates putting in a lot of overtime—and receiving overtime pay—as she learns her new job. Review Rachelle’s paystub below to determine what she could do to build her 401(k) and increase what she is contributing to savings.

123 Company
555 Anywhere Rd
Anywhere, USA 11111

Period Ending: 1/15/13
Pay Date: 1/31/13

Rachelle L Thomas
Social Security: XXX-XX-3333
Taxable Gross: \$558.00
Net Pay: \$443.00

Taxable Marital Status: Single
Exemptions/Allowances:
• Federal: 0 • State: 0

Description	Rate	Hours	This Period	Year to Date
Regular	\$10.00	40	\$400.00	\$800.00
Overtime	\$15.00	12	\$180.00	\$360.00
Total			\$580.00	\$1,160.00

Deductions	This Period	Year to Date
Federal Income Tax	\$36.00	\$72.00
State Income Tax	\$9.00	\$18.00
Medicare Tax	\$4.00	\$8.00
Social Security Tax	\$16.00	\$32.00
Other		
Health Insurance*	\$22.00	\$44.00
401(k)*	\$0.00	\$0.00
Savings Deposit	\$50.00	\$100.00
Total	\$137.00	\$274.00

*Excluded from federal taxable wages

How could Rachelle build her retirement and increase her savings?

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Sample 3:

Taylor works part-time for a construction company. His employer doesn't offer health insurance, retirement savings or flexible spending accounts but his parents help him with medical expenses. He would like to save as much money as he can so he can buy a new truck. Review Taylor's paystub below and determine how he could maximize his savings.

123 Company
555 Anywhere Rd
Anywhere, USA 11111

Period Ending: 2/15/13
Pay Date: 2/28/13

Taylor K Davis
Social Security: XXX-XX-4444

Taxable Marital Status: Single
Exemptions/Allowances:
▪ Federal: 0 ▪ State: 0

Description	Rate	Hours	This Period	Year to Date
Regular	\$12.50	40	\$500.00	\$2,000.00
Overtime	\$18.50	6	\$111.00	\$444.00
Total			\$611.00	\$2,444.00

Deductions	This Period	Year to Date
Federal Income Tax	\$55.00	\$220.00
State Income Tax	\$11.00	\$44.00
Medicare Tax	\$8.00	\$24.00
Social Security Tax	\$27.00	\$108.00
Other		
Savings Deposit	\$20.00	\$80.00
Total	\$121.00	\$484.00

*Excluded from federal taxable wages

Taxable Gross Pay: \$611.00 / Net Pay: \$490.00

What could Taylor do to maximize his savings?
