

# WAGES MINUS DEDUCTIONS

## Deduct deductions FIRST

So you just got that new job. Good for you! Right now you're probably thinking of all the things you can buy with your newfound wealth. But there's one thing you need to know before you cash that paycheck – What you **MAKE** and what you get to **KEEP** are two different things.

Everybody who makes money – every burger flipper, every lawyer, even the President of the United States, **everybody** – has to give a portion of their money to the government in the form of taxes. These taxes pay for roads, schools, police departments, libraries and thousands of other things that the

government pays for. Generally, these taxes are taken out of every paycheck you receive. You can't avoid it. It's the law. But understanding deductions and knowing how much will be deducted will help you budget your money more effectively. So let's take a look:

The total amount of money you earn is called your **Gross Income**. If you earn \$10 an hour and work for 5 hours, you've made \$50 in gross income.

Once the deductions are taken, what you have left over is your **Net Income**, or **Take-home Pay**.

So... **gross income – deductions = take-home pay**

Just what are those deductions?

*A new employee learns more than just how to mop floors at his new fast food job. He also learns about payroll taxes.*

# EQUAL TAKE-HOME PAY

**Federal Taxes** - This is generally the largest deduction you have to face. Federal taxes pay for things like national parks, the Armed Forces, government research to scientists, and all those things you hear lawmakers debating about on the news.

**State Taxes** – This is very often a smaller amount than the Federal Taxes. State taxes pay for roads, state parks, police departments, and things that are important to the state you live in. Some states don't deduct from your paycheck and some states even require the city you live in to deduct "Local Taxes" to pay for schools and libraries and things in your home town.

**Social Security** – Social Security is money you pay the government now, and they put it into a national government fund. Money from this fund is used to pay for benefits for the disabled, elderly, and others. Once you reach a certain age (usually 65), the government will start paying you a monthly income from this fund. The total amount you make is based on how much money you earn over your lifetime.



## Where Does My Money Go?

Use the internet or library to help you make a list of 5 things the federal government spends our tax money on, and another list of 5 things the state government spends tax money on. (Don't list anything that's already been mentioned on these 2 pages)

### FEDERAL TAXES

### STATE TAXES

## Calculate Your Take-Home Pay:

Calculating your deductions and take-home pay is easy if you follow the steps below.

Let's say you earn \$6 an hour at your job and you worked 15 hours the first week. Here's how things work out:

### STEP 1: How much did you earn?

$$\frac{15}{\text{hours worked}} \times \frac{6.00}{\text{hourly wage}} = \$ \frac{90.00}{\text{Gross income}}$$

### STEP 2: How much was deducted?

$$\frac{90.00}{\text{Income}} \times \frac{.05}{5\% \text{ Federal tax}} = \$ \frac{4.50}{\text{Income}}$$

$$\frac{\text{Income}}{\text{Income}} \times \frac{\text{Income}}{3\% \text{ State tax}} = \$ \frac{\text{Income}}{\text{Income}}$$

$$\frac{\text{Income}}{\text{Income}} \times \frac{\text{Income}}{6\% \text{ Social Security tax}} = \$ \frac{\text{Income}}{\text{Income}}$$

### STEP 3: Subtract deductions to calculate your Take-home Pay

\$ \_\_\_\_\_ Gross Income

- \_\_\_\_\_ Federal Tax

- \_\_\_\_\_ State Tax

- \_\_\_\_\_ Social Security

\$ \_\_\_\_\_ Take-home Pay or Net Income

### Using the same tax rates as above...

How much would you take home if you worked 22 hours at \$6 an hour?

What if you worked 35.5 hours?

What would you take home if you worked 71 hours in two weeks?

What if you got a raise to \$9.00 an hour and worked 37 hours?

**BONUS QUESTION:** What if you work 40 hours at \$9 per hour and 10 hours overtime at "time and a half"?