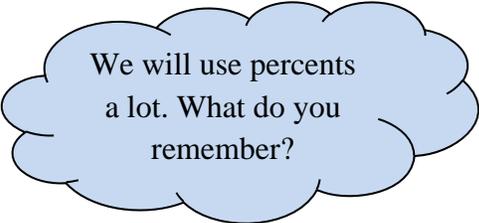


The employer deducts taxes from paychecks and sends that money to the IRS.

We have learned how to figure gross earnings, or how much a person earns from the work they perform. However before a check is cut, some taxes must be taken out and sent directly to the government or other entities. Employers deduct things such as Social Security contributions, some insurance premiums, taxes, union dues, and other miscellaneous items.

Recall: Percentages:

Can you find 6% of \$50? What calculation is needed?



We will use percents a lot. What do you remember?

What about finding 6.2% of \$50? Do that one quickly. Write down what you need to enter into the calculator.

As I said, there are many deductions we will see in this and later sections. Some are based on the gross earnings, and so we deduct a percentage of the gross earnings. Other amounts will be given as straight dollar amounts to deduct. We subtract these amounts from the gross earnings to find the employee's **net earnings** or **net pay**.

Some examples of deductions we will see are

- FICA (Federal Insurance Contributions Act, aka Social Security) – currently 6.2% of gross earnings up to \$130,000
- Medicare (publicly funded health insurance) – currently 1.45% of gross earnings
- certain insurance premiums such as SDI (State Disability Insurance) – usually 1% of gross earnings, up to a certain amount
- retirement contributions
- union dues
- savings account automatic deposits
- income taxes (federal and state, seen in the next section)
- etc.

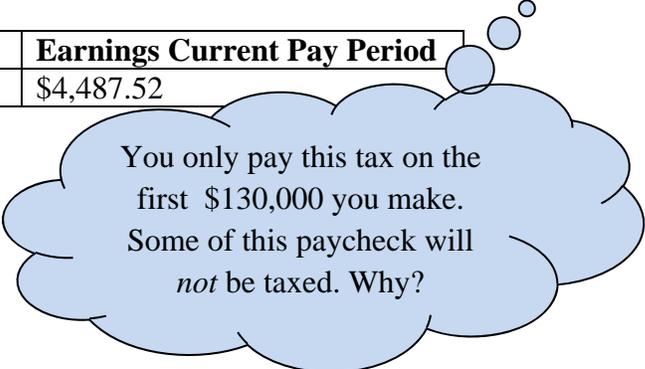
Technically, the employer deducts the amount for Social Security and Medicare from the paycheck, and then matches it with their own funds, sending the whole lot to the government.

Self-employed people need to send in twice the amount, so we use the percentages 12.4% and 2.9% for those situations.

Social Security Tax:

expl 1: Find the Social Security tax for the employee listed here for the current pay period. Assume a 6.2% FICA rate up to a maximum of \$130,000.

| Name | Gross Earnings This Year (So Far) | Earnings Current Pay Period |
|------------|-----------------------------------|-----------------------------|
| Maurin, J. | \$128,971.95 | \$4,487.52 |

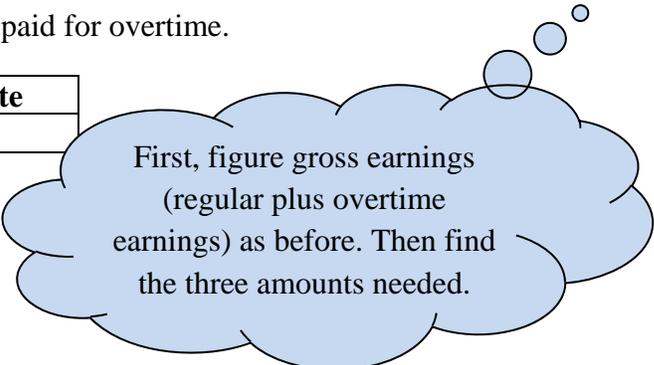


You only pay this tax on the first \$130,000 you make. Some of this paycheck will *not* be taxed. Why?

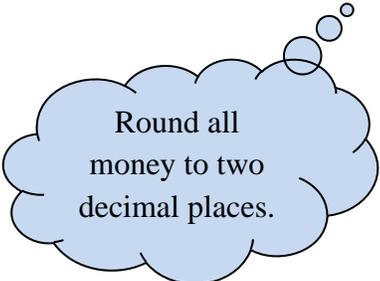
Payroll Deductions:

expl 2: Find the regular earnings, overtime earnings, gross earnings, Social Security tax (6.2%), Medicare tax (1.45%), and state disability insurance deduction (1%) for the employee here. Assume that she will *not* have earned more than the FICA or SDI maximum at the end of the current pay period. Assume that time-and-a-half is paid for overtime.

| Name | Hours Worked | Regular Pay Rate |
|------------|--------------|------------------|
| Eckern, G. | 45 | \$10.20 |



First, figure gross earnings (regular plus overtime earnings) as before. Then find the three amounts needed.



Round all money to two decimal places.

In practice, once we know these deductions, we would subtract them from the gross earnings to get the employee's net pay. You are *not* asked to do this in the section.

Self-Employed Deductions:

Self-employed people *not* only send in their 6.2% for FICA and their 1.45% for Medicare, but they also have to make up the *employer's* portion, which is equivalent. So when they figure how much to send in to the government, they need to find 12.4% for FICA and 2.9% for Medicare.

expl 3: Tony Romano owns a restaurant called The Cutlery. His annual adjusted earnings were \$58,238.74. How much should he send in for FICA and Medicare?