

INFORMATIONSTATION.ORG

UPDATE POST



Pay Checks: Who Is FICA And Why Is He Getting All My Money?

Posted on May 1, 2014

http://informationstation.org/kitchen_table_econ/pay-checks-who-is-fica-and-why-is-he-getting-all-my-money/

If you have a job or are just starting out, you might be wondering what all those numbers on your pay stub mean. If you receive a regular paycheck (or will soon), here are some details worth knowing:

Arrange for Direct Deposit

The safest (and quickest) way to receive your paycheck is to have your pay directly deposited in a checking or savings account at your bank or credit union. It's safe because there is no risk of a misplaced check. It's fast because the money hits your bank account on the day it's issued – there's no hang-time waiting for the check to clear. Most employers are happy to set up direct deposit. In fact, an increasing number of employers no longer issue paychecks at all, only pay receipts.

They offer you two alternatives: direct deposit or compensation placed in a pay card which functions more or less like a debit card.

Why Do You Take Home Less Than You Earn?

In an early episode of the classic TV sitcom Friends, Rachel receives her first paycheck from a waitressing job. She examines her paycheck only to discover that it's much smaller than she anticipated: "Who's FICA? Why is he getting all my money?" she asks.

Rachel was learning the difference between gross pay and net pay. Gross pay is what is earned before deductions. Net pay is what is left in your check after all the deductions are taken out.

Where Does It All Go?

It's hard to escape paying taxes. All wages, salaries, bonuses, commissions, tips, or incentive packages provided by employers are taxable. And it's your responsibility to report them to the federal government when filing your tax return.

Federal income taxes, FICA and Medicare are required deductions from your paycheck. Some states and cities require additional deductions for state and city income taxes. Other deductions such as contributions to retirement accounts or savings plans, however, are voluntary. Who (or what) is FICA? The Federal Insurance Contributions Act (FICA) tax is comprised of the Social Security and Medicare taxes that are with-

held by federal law. Social Security is currently 6.2 percent of eligible wages; Medicare is 1.45 percent of all wages.

Social Security taxes fund retirement benefits, benefits for the dependents of retired workers, and benefits for the disabled and their dependents.

The funds received for Medicare are used to provide medical benefits for certain individuals when they reach age 65. Workers, retired workers, and the spouses of workers and retired workers are eligible to receive Medicare benefits upon reaching age 65.

Many voluntary deductions can be taken from your paycheck as well including health insurance, dental insurance, parking, day care and so forth.

Allowances and W-4s

The largest amount withheld from your paycheck will be your federal income tax. Each year, you owe the federal government a certain amount

based on your gross income. The government has found a way to make paying these taxes a little less painful – it withholds them, along with other required deductions, from your paycheck each pay period.

These withheld dollars act as a pre-payment on the tax bill you owe the government. When you complete your income tax return at the end of the year, the IRS determines whether you've "pre-paid" too much, or not enough (if you've overpaid, you will get a refund).

When you start a new job, you get to decide how much money is withheld from your pay check by completing a W-4 form. The W-4 form asks you to indicate the number of personal allowances you wish to take. These allowances reduce the amount of income that the government views as taxable. If you take no allowances, more money will be withheld to pay taxes from your check; if you take a larger number of allowances, less will be withheld.

It pays to figure out the right number of allowances; otherwise, you may end up owing Uncle Sam a good chunk of change come tax time. The IRS has a website that explains more about personal allowances. It also has a calculator to help you decide how many allowances you should take here.

Don't Forget to Enroll in Your Employer's 401(k) Plan

Perhaps the most important voluntary deduction of all is getting started in your company's 401(k) plan. Make sure you contribute enough to get any matching contribution that might be provided by your employer – more if you can. Getting started saving for retirement early can bring substantial financial rewards for you in the future.