

## Show me my money! Understanding payroll taxes

Written by Julie Desmond  
Friday, 04 May 2012 13:34

---

Here's a math problem for you: Reba works forty hours a week and earns \$16 per hour. Therefore, she earns \$640 in a week. So why is it that the check she receives is so much less than six hundred forty? The answer is Taxes. Understanding how payroll deductions work can help Reba get a handle on how much money she actually takes home on payday. As we all know, State and Federal laws require that payroll taxes be withheld from an employee's paycheck. Employers then pass the amount withheld over to various tax agencies. Payroll tax deductions include State and Federal income tax, Social Security tax and Medicare tax, as well as various local taxes such as city, county or school district taxes, for example.

If Reba and a coworker were to compare their paystubs, which they should never do, they would see that the total amount withheld from their paychecks is probably not the same. Some taxes, including Social Security and Medicare, are taxed at the same percentage rate for everyone. But Federal and State withholding can vary, depending on how Reba filled out the Form W-4 when she was hired.

The W-4 asks about a person's marital status and number of dependents. Reba can change her answers on the W-4 at any time and as often as she wishes. The idea behind this is that come tax time in April, Reba doesn't want to owe the government any money. But she doesn't want to get a huge refund, either, because that's money she could have had in her pocket all year long. Updating this form when she marries, divorces or adds a child to the family will ensure that Reba and the government stay even throughout the year.

The W-4 is most effective when it is completed accurately, but Reba can choose to claim fewer dependents than she actually has, if she wants extra money withheld. She can also designate an additional dollar amount withheld if she's worried about owing money at the end of the year. The IRS has a calculator online to help people determine the right number of allowances to claim on the W-4 form. It's at [IRS.gov/individuals](http://IRS.gov/individuals).

If Reba wants to plan ahead, it's helpful to know that her paycheck will look different in 2013, even if her pay rate doesn't change. As part of the Tax Relief Act of 2010, Social Security withholding was cut to just 4.2 percent of income. However, in 2013, the amount goes back up to 6.2 percent. Sometime in the fall, lawmakers will get together and update the State and

## Show me my money! Understanding payroll taxes

Written by Julie Desmond  
Friday, 04 May 2012 13:34

---

Federal withholding, too. Reba might be taking home less money come January if she doesn't get a raise.

As she looks over her paystub, Reba might see some other deductions. She might have agreed to have money withheld from her check for health insurance, a retirement plan contribution, meals, uniforms, union dues or other job related expenses.

It is the Employer's responsibility to withhold the correct amounts from a paycheck. But it is Reba's responsibility to notice and to speak up if she has a question about a deduction. By taking time to read that paystub every time, Reba will gain powerful knowledge about the money she earns – all of the money she earns.

Julie Desmond is a Certified Staffing Professional and Talent Manager for Lake Region Staffing. Send your career planning questions to [julie@lakeregionstaffing.com](mailto:julie@lakeregionstaffing.com).