

# Payroll Glossary

*Mastering payroll means comprehending a laundry list of terms.*



## 401(k)

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A retirement plan sponsored by employers allowing employees to save and invest a portion of their paycheck pre-tax.

## Adjusted Gross Income

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An employee's gross income minus specific deductions.

## Allowances/Exemptions

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These are marked on an employee's W-4 and reduces their taxable income. They are based on statuses or circumstances, like marriage or children.

## Annual Wage

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The total amount an employee will be paid in wages during a calendar year.

## Commission

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A fee paid to an employee for performing a service or selling a product.

## Compliance

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Process of fulfilling official requirements. Payroll managers should perform extensive research to educate themselves on all relevant laws or outsource the responsibility to an accountant, payroll provider, or professional organization.

## Dependent

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An individual that a taxpayer claims an exemption, for example, children.

## Earned Income Credit (EIC)

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A tax credit for certain people who've earned income under \$53,267.

## Employer Identification Number (EIN)

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Also known as the Federal Identification Number, the EIN is a unique 9-digit number issued to your business by the IRS for tax purposes. You can apply for yours [here](#).

## Fair Labor Standards Act (FLSA)

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A federal law that sets the rules for minimum wage, overtime pay, record-keeping, and child labor. The law applies to both private and public businesses so it is important to familiarize yourself with the standards and understand how to properly classify and pay employees.

## Federal Insurance Contributions Act (FICA)

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A payroll tax imposed on employers and employees that fund Social Security and Medicare.

## Federal Withholding Rates

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A federal income tax rate based on a person's taxable income and filing/marital status.

## Form 941

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Employer's Quarterly Federal Tax Return. This form tells the IRS how much income tax, Social Security tax, and Medicare tax you have withheld from your employees' paychecks during the past quarter. Download a blank form [here](#).

## Form 1099

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A year-end summary of all non-employee compensation that includes money you paid to independent contractors, freelancers, vendors, landlords— anyone not on staff. Download a blank form [here](#).

## Form W-2

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A report of how much compensation paid to employees for the previous year and how much taxes were withheld. These forms are divided into state and federal sections since employees file taxes with each. Download a blank form [here](#).

## Form W-4

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A form that employees fill out to let their employer know how much money to withhold from their paycheck for taxes. The form should be filled out on the employee's first day and it includes information such as marital status, number of dependents, exemptions claimed, and more. Download a blank form [here](#).

## Form W-9

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A form that employers use to gather basic identity and tax information from independent contractors. Although employers don't withhold taxes for independent contractors, they are required to tell the IRS how much they paid them over the course of one year if the amount exceeds \$600. Employers use the information in the W-9 to report the income to the IRS. Download a blank form [here](#).

## Fringe Benefits

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A form of compensation provided by the employer other than income, such as company cars, health insurance, or employee discounts. Such benefits are subject to federal and state taxes and must be reported to the IRS.

## Federal Unemployment Tax Act (FUTA)

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A piece of legislation that authorized the federal government to collect taxes from employers for the purpose of funding state unemployment agencies and compensating former employees who are eligible for unemployment insurance.

## Garnishments

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Deductions that must be withheld from an employee's wages to satisfy the person's debts or legal obligations. Common garnishments include child support, unpaid taxes or defaulted student loans.

## Gross Pay

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The total amount of a person's salary before taxes or other deductions are subtracted.

## Income Tax

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Taxes all individuals or entities must pay that varies with their taxable income.

## Independent Contractor

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An outside worker hired for a specific and limited scope of work. They should determine the manner in which they complete their tasks. Be aware: misclassification is a common pitfall of the payroll process.

## Medicare Tax

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Part of the FICA, the Medicare Tax funds Medicare hospital insurance for certain Americans.

## Minimum Wage

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The minimum hourly wage per state an employer can pay for work.

## Net Pay

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The amount employee's make after all deductions are taken from their check.

## Overtime Pay

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Non-exempt employees who work over 40 hours in a week must be given this pay, which is equal to at least time and a half of their regular rate.

## Pay Period

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The number of days for which an employee is paid, for example, weekly, bi-weekly, semi-monthly, or monthly.

## Social Security

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Part of FICA, Social Security helps fund benefits for retirees.

## Take-Home Pay

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The amount of pay a worker takes home from each paycheck after all deductions and withholdings have been taken out.

## Wages

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A fixed regular payment made by an employer to an employee for a job or task.

## Withholding Tax

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A government requirement for all taxpayers that come from an employee's pay.

## BerniePortal Payroll Integrations

Leading payroll providers integrate with BerniePortal to easily communicate employee information.



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