

# Paychecks & Pay Stubs

## What Everyone Needs to Know



Whether it's your first paycheck or your one hundred and first, everyone loves getting paid. But, aside from looking at the final amount, both employers and employees need to know what all of the numbers mean.

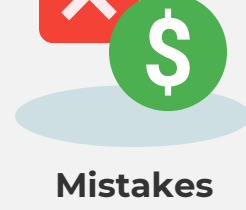
## Every Paycheck Matters to Every Employee



### Lateness

**71%**

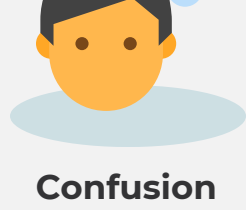
say a late paycheck would make it very or somewhat difficult to pay their bills.



### Mistakes

**24%**

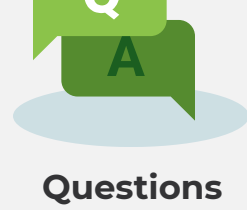
will look for a new job after just one paycheck mistake.



### Confusion

**42%**

say items like taxes and deductions are hard to understand.

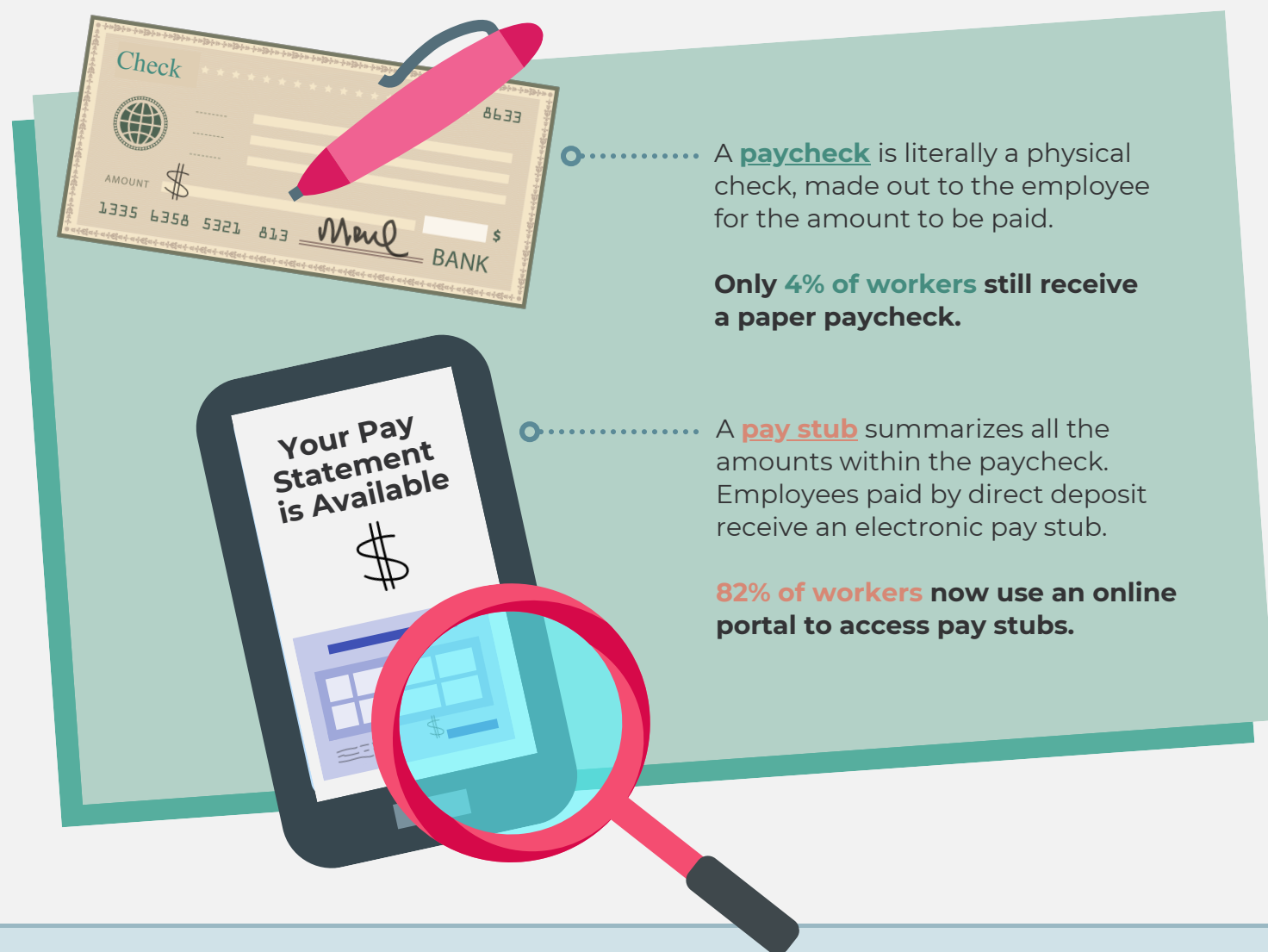


### Questions

**26%**

will turn to a manager for help if there's a mistake.

## Paycheck vs. Pay Stub



A **paycheck** is literally a physical check, made out to the employee for the amount to be paid.

**Only 4% of workers still receive a paper paycheck.**

A **pay stub** summarizes all the amounts within the paycheck. Employees paid by direct deposit receive an electronic pay stub.

**82% of workers now use an online portal to access pay stubs.**

## Basic Pay Stub Details

### Opening Summary

#### Pay rate:

If an employee is hourly, the pay rate will show the hourly wage.

If an employee is salaried, it will show the standard total per pay or total annual income.

#### Pay period:

The start and finish dates for the period of time that the paycheck covers.

Pay date: Feb. 8  
Pay rate: \$50.00/hr.  
Pay period: Jan. 20 - Feb. 2  
Total pay: \$4,000

Ima Employer  
Main Street  
Anywhere, USA 12345  
Seymour Green  
Living the Dream  
Anywhere, USA 12345

### Company and Employee Information

The **company address** needs to be the same address the business used when registering with the tax authorities. This should also be the same address listed at the bank.

**Employee information must also be up-to-date**, including first and last name, street address, city, state and Zip Code.



**Incorrect or inconsistent information can cause delays and confusion.** Within the tax agencies, inconsistencies may also cause delays in bank approvals and direct deposits.

### Total Pay (Gross Pay)

The amount **before** all of the **deductions** and **contributions** are applied.

### Net Pay (Final Pay)

The amount **after** all of the **deductions** and **contributions** are applied.



## Additional Pay Stub Details



### Deductions

The amounts subtracted (withheld) from the total pay, including:

- **Income tax:** % of the employee's gross wages.\*
- **Social Security:** 6.2% up to the maximum annual contribution.\*
- **Medicare:** 1.45% with an extra .9% for income over a set threshold.\*
- **Other:** Can include state and local income taxes, employee 401K contributions, insurance payments, profit sharing, union dues and garnishments.



### Contributions

The required tax amounts added to the paycheck by the employer, including:

- **Social Security:** 6.2% employer contribution.\*
- **Medicare:** 1.45% employer contribution.\*
- **Federal unemployment insurance:** 100% employer-paid.
- **Other:** Includes state unemployment and local taxes as applicable.



### Other Income & Paid Time Off

As income, the following are also **subject to income tax**:

- Overtime
- Tips
- Bonuses
- Commissions
- Sick time
- Vacation
- Personal time

## Total vs. Year-to-Date



### Total

Represents the amount or amounts for the **specific pay period**.



### Year-to-Date (YTD)

Represents the **cumulative** amount or amounts from the first payroll of the year up to and including the specific pay period.

## What Happens to the Money the Employer Takes Out or Puts In?

The employer is responsible for collecting, reporting and forwarding the amounts to the **Internal Revenue Service (IRS)**, as well as the appropriate **state and local tax agencies**. Automating this process is one of the main reasons businesses use payroll software.



## Pay Stub vs. W-2



### Pay Stub

Issued with every paycheck.

Summarizes the specific pay period and YTD amounts.

Pay stubs should be kept for 1 year and used to verify the amounts in the employee's W-2.\*\*



### W-2

Issued once a year — due to employees by January 31.

Summarizes the entire year's worth of pay information — including the amounts deducted for income tax, Social Security and Medicare.

As this form is used for filing personal and business income taxes, it should be kept for at least 3 years (or longer if required).\*\*



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\*Income, Social Security and Medicare tax rates are reviewed annually and subject to change.  
\*\*Due to labor law and tax implications, employers will keep payroll records several years longer than employees.

#### SOURCES:

American Payroll Association — 2017 Getting Paid in American Survey

Bank of America — Better Money Habits® Blog

IRS — Small Business and Self-Employed Tax Center

Kronos Workforce Institute — 2017 Engaging Employees Through Payroll Survey

Wagepoint — Interactive State-by-State Tax Map

Image of Check — Created by Freepik