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PAYROLL SERVICE



**UNDERSTANDING
YOUR PAYCHECK**



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If you've just landed your first job, take the time to understand your paycheck. Know what money and benefits you are entitled to receive, as well as what taxes and other deductions will be taken out of your paycheck. Once you are familiar with these items, be sure to review each paycheck for accuracy. The basics of your paycheck are explained below, but ask your employer for clarification if you have any questions because the specifics are dependent upon your location and workplace.

PAY FREQUENCY

You could be paid in weekly, biweekly, or monthly intervals, but the exact timing of your paycheck will depend on your workplace and location. State law dictates how often an employer is required to pay you. It can be more frequent, but not less often than required by law.

PAYMENT METHOD

Your employer should make arrangements with you in regards to how you receive your paycheck - by check, pay card, or direct deposit. If you receive a paper check, you can cash it or deposit it into your bank account. Pay cards are not used routinely, but they are an option for anyone without a bank account. They work similarly to debit cards in that they store value like cash. In recent years, the preferred payment method for most workplaces is direct deposit, which is described below.

DIRECT DEPOSIT

Many employers give the option of using direct deposit, which means that your employer will electronically deposit your wages directly into a bank account. You must permit your employer to access your bank information, and you can specify which account and the account type (checking or savings) as well as which financial institution you'd like to use. Your employer may ask for the information in the form of a voided check or deposit slip. The information they need is the name of the institution, its routing number, and your account number. On payday, you should see the money available in your account, ready for use.

BENEFITS OF DIRECT DEPOSIT:

- **It's convenient** - Your check is deposited into your account automatically, so there is no need to go to a bank to deposit your check.
- **It's safer** - Your paycheck cannot get lost or stolen.
- **Your earnings can gain interest** - If you deposit your money into a savings account, it can start earning interest immediately.
- **It's flexible** - You can split your payment by depositing portions into more than one account.

YOUR PAY STATEMENT

For each pay period, you will receive a record that accompanies the payment - either a pay stub (accompanying a paper check) or a statement (online or by mail). If you enroll in a direct deposit system, you will not receive a physical check, but instead, you will receive a statement that gives details. Some of the information included on your statement: the pay period, date of payment, your wages before and after taxes (federal, state, and local), deductions for social security, Medicare, and anything else (such as insurance), and hours worked if you aren't salaried. This statement may come in the mail, but many companies have switched to paperless statements so that you can view it online only.

Your statement will also indicate your gross pay and net pay. Gross pay is the total amount of wages, including overtime and bonuses, you have earned. This amount is what is used to determine your taxable income. The net pay is how much money you receive after accounting for taxes and any other deductions, also known as "take-home" pay.

It's important to always view your statement each pay period to check for accuracy, especially if you work overtime or in a capacity in which you receive tips.

WHAT HAPPENS IF I LEAVE?

When you leave your job, for whatever reason (quitting, lay off, or firing), you are still entitled to receive payment for completed work. State laws regulate how quickly you can expect to receive your final paycheck, but you should receive wages up through your last day of work by the next payday.

EXEMPT VERSUS NON-EXEMPT STATUS

Employees are classified as exempt or nonexempt, and your company will provide information on which category you fall into based upon your duties. If you have a higher status within a company, it's more likely that you are an exempt employee. Government employees - at the local, state, and federal levels - and those in positions of authority are typically exempt. Those who work on commission, such as employees in retail, sales, or service jobs are also commonly exempt. Exempt employees are paid on a salary, not hourly, basis.

According to [The Fair Labor Standards Act](#), if you are a nonexempt employee and over the age of 20, you must be provided a minimum hourly wage. The minimum wage is currently \$7.25 per hour, plus overtime pay for every hour over 40 hours in one workweek. Employees under the age of 20 must be paid \$4.25 an hour for their first 90 days, and then the standard wage of \$7.25 thereafter.

It is still possible for nonexempt employees to receive a salary, but it must be at least the same rate as the minimum wage and overtime pay. To determine if your salary meets the requirement, divide your salary (per week) by the number of hours worked, and make sure it is at least the same or above the set minimum wage.

Smaller companies do not fall under The Fair Labor Standards Act, but some states have similar laws to protect your wage. If your company must abide by both federal and state laws regarding minimum wage, and the amount differs, then it is required for them to pay whichever wage is higher.





OVERTIME

Nonexempt employees are entitled to overtime pay for every hour over 40 hours within a single workweek. The amount of overtime pay should equal one and a half times the regular amount of pay for each overtime hour. In some cases, local and state governments can instead allow 1.5 hours of work off for each hour of overtime you work. This rule applies to local and state government employees.

An example of how overtime pay works: if you work 50 hours during a week, you worked 10 hours over the regular 40, so 10 are considered overtime. If you are paid \$12 an hour for regular hours, you will be paid \$18 for each overtime hour ($1.5 \times \$12$). For that particular week, you would earn ($40 \times \$12 = \480) for your regular hours and ($10 \times \$18 = \180) for your overtime hours, to total \$660.

TIPS

If you have a job as a waiter, waitress, or bartender, you may be considered a tipped employee if you receive \$30 or more in tips per month. If your tips average a minimum of \$5.12 per hour, then your employer only has to pay the difference between that and minimum wage, which equals \$2.13 an hour. If not, your employer has to raise the rate to ensure you receive at least minimum wage. It's important to note that a service charge does not count as a tip, as it is part of your regular wage.

If you are a tipped employee you are required to report all income, including tips, to your employer. Money earned from tips is taxable income. If you earn less than \$20 in tips per month, however, you do not have to report it as part of your income.

TAXES

All U.S. employees and U.S. citizens who work in other countries are required to pay federal income tax, which is money owed to the federal government, collected by the Internal Revenue Service (IRS). Your employer will calculate how much you tax you owe based on the [IRS's withholding tables](#), and depends on the following:

- Filing status (single, married and filing jointly, or married and filing separately)
- Your pay interval (weekly, biweekly, or monthly)
- Gross pay
- Deductions

[Most states](#) also require an additional income tax; seven do not (Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, and Wyoming). Depending on your residence, you may also owe taxes to your county, city, and school district. Your employer can collect all of these taxes by withholding a portion of your pay and sending it directly to where it is required.

BENEFITS

Your employer may offer benefits. Here is a brief explanation of some of the most common benefits.

- **Health insurance:** Most employers will only pay a certain percentage (and you will have to cover the rest). Some plans will include dental and vision as well.
- **Retirement:** You may have the option to contribute to a retirement plan like a 401(k) and have the amount you wish to be automatically deducted from each check (before taxes).
- **Life insurance:** A life insurance will ensure any beneficiary you designate will be provided for in the event of your passing. Your employer might cover a certain amount and give you the option to contribute more.
- **Disability insurance:** In the event of illness or injury, this provides you income when you cannot work.



HOW ASAP PAYROLL CAN HELP

Do you want to make your payroll process easy, saving you time and money? Whether you have a small or large business, we make the process simple. Have confidence that your employees are paid accurately and timely with ASAP Payroll Service. Contact us today!

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