

NAME: _____

DATE: _____

VIDEO

Gross vs. Net Income

What + Why: Figure out what actually ends up in your pocket—and why it's not your full paycheck.

Hi. I'm Mia. I'm so excited, because I just finished my first two weeks at a local ice cream shop. Let me tell you, scooping is no joke! I received my first paycheck, and I'm a bit confused. The numbers just don't make sense, and I'm getting a lot less than I expected.

In this activity you will help me examine the difference between gross income and net income, investigate how deductions impact my take-home pay, and help explain how to interpret my pay stub.

When my manager hired me for this summer job, she said I would work for 30 hours a week at \$15 an hour. That means \$450 a week! So, when I got my paycheck for two weeks' worth of work, I thought I'd get \$900.



Here's a copy of my pay stub. Can you help me make sense of what I earned?

Mia gets paid every two weeks. The pay stub shows that she worked a total of 60 hours between June 1 and June 15.

Mia earns \$15 for every hour she works at Sundae Funday.

A pay stub shows what you earned in a pay period and what was deducted for taxes, insurance, and other items.

Sundae Funday		PAY STUB	
Recipient: Mia Froyo		TOTAL NET PAY \$820.55	
Pay Rate: \$15 per hour		Pay Date: June 20	
Pay Period: June 1–15		Payment Method: Check	
Hours Worked: 60			
PAYMENTS		DEDUCTIONS	
Regular Pay	\$900.00	Federal Tax	\$34.00
Overtime Pay	\$0.00	State Tax	\$19.00
Bonus	\$0.00	FICA	\$69.00
Reported Tips	\$42.55	Other	\$0.00
TOTAL GROSS PAY		TOTAL DEDUCTIONS	
\$942.55		\$122.00	

Mia's regular pay is \$900.00 (\$15 an hour $\times$ 60 hours). It looks like Mia also received some extra money from tips when customers used a credit card to buy ice cream (\$42.55).

Deductions are money that an employer subtracts from an employee's gross income to pay for taxes, health insurance, and other expenses. It looks like Mia paid federal taxes, state taxes, and FICA (Medicare and Social Security).

Mia's deductions add up to \$122.00. Her employer subtracts this amount from her gross pay.

Gross pay (sometimes called gross income) is the amount of money an employee earns before any taxes or other deductions are subtracted. Mia's gross pay is her regular pay plus reported tips (\$942.55).

Net pay (sometimes called net income or take-home pay) is the amount of money an employee receives after taxes and other deductions are subtracted. Mia's net pay is $\$942.55 - \$122.00 = \$820.55$.

Gross Pay – Deductions = Net Pay

Gross Pay may include:

- Salary or regular pay
- Overtime or holiday pay
- Bonuses
- Commissions
- Tips

Deductions may include:

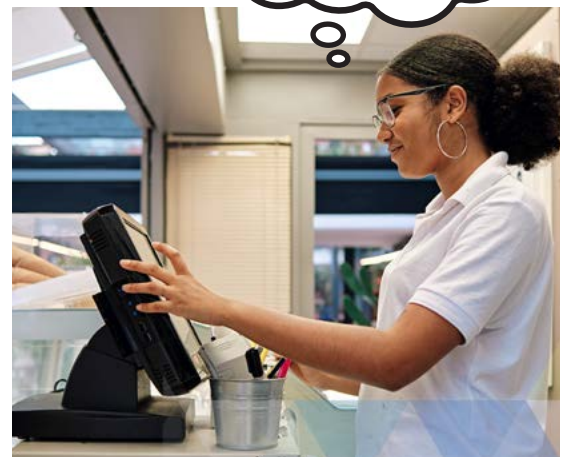
- Taxes (federal, state, or local)
- FICA (Social Security and Medicare)
- Insurance premiums
- Retirement plans
- Union dues
- Court-ordered payments

Net Pay can also be called take-home pay.

Oh. I see. My gross pay is what I'm earning per hour multiplied by the hours I work. It also includes any other income, like tips I receive from credit card payments. But, then deductions (things like taxes and Social Security) are subtracted from my gross pay. That's why I was paid less than I expected. My parents mentioned that they have other deductions taken from their paychecks as well, things like health insurance and retirement savings. I guess I should feel lucky that those don't apply to me (yet!). So, gross pay minus deductions equals my take-home pay (what I can use to spend and save).

Even though I won't be able to work this many hours during the school year, I'm curious what my estimated yearly income would be based on my first paycheck. Let's pretend I continue to work 30 hours a week for the entire year. How much would my deductions be for an entire year?

Okay. So, since I get paid bi-weekly, I'd need to multiply my regular pay times two to get an approximate gross monthly pay. (I'll ignore my tips and other income since I can't really count on that money consistently.) Then, I'll multiply that by 12 since there are 12 months in a year. It looks like if I could work 30 hours a week all year round, I would make approximately \$21,600 of gross annual pay. I'll do the same multiplication for my deductions. It looks like I'll pay almost \$3,000 a year for taxes and FICA. So, to find my take-home (or net pay) for a whole year, I'll just subtract my estimated deductions from my approximate gross pay. It looks like I could bring in approximately \$18,600 a year! Wow!



I know those are all just estimates, but that really helps me plan out my year. I can help out my parents with some of our household costs, start saving up for a car, and maybe I can afford to go see my favorite group's concert at the end of the summer with my friends after all!

Question 1

What is gross pay?

- ☐ a. A paper or electronic record showing what you earned in a pay period and what was deducted for taxes, insurance, and other items
- ☐ b. The amount of money an employee earns before any taxes or other deductions are subtracted
- ☐ c. Money that an employer takes from an employee's paycheck to pay for taxes, health insurance, and other expenses
- ☐ d. The amount of money an employee receives after taxes and other deductions are subtracted

Answer: b. Gross pay is the amount of money earned before any taxes or other deductions are subtracted.

Question 2

Noor recently started a new salaried job that offers health benefits. On his second paycheck, he notices his net pay is lower than the first one, even though he worked the same number of hours at the same hourly rate.

What is the most likely reason Noor's take-home pay decreased?

- ☐ a. Noor worked fewer hours.
- ☐ b. A new deduction for health insurance was taken out.
- ☐ c. Noor's hourly wage went down.
- ☐ d. The company deducted money Noor owed them from his paycheck.

Answer: b. The health benefit most likely kicked in on Noor's second paycheck, which means a new deduction was taken out for insurance. That's why his net pay went down, even though everything else stayed the same.

Thanks for sticking with me! Now I understand the difference between gross income and net income, how deductions affect what I actually take home, and how to read my pay stub without feeling totally lost.