How to Read Your Paycheck Stub

A quick guide for new hires, Little AI Coffee Corner practice file

Your pay stub is the small report that comes with each paycheck. It shows what you earned, what was taken out, and what you actually take home. It can look busy at first, but it only has a few main parts. This guide walks through them one at a time.

Gross pay vs. net pay

Gross pay is the total you earned before anything is taken out. For hourly workers, it is your hours times your hourly rate, plus any overtime. For salaried workers, it is your yearly salary divided by the number of pay periods.

Net pay is what is left after all deductions. It is the amount that lands in your bank account. People often call it take-home pay. Net pay is always smaller than gross pay.

Common deductions

Federal income tax is withheld based on your earnings and the choices on your W-4 form.

State income tax is withheld in most states. A few states have no state income tax, so this line may be missing.

Social Security is 6.2% of your wages, and **Medicare** is 1.45%. Together they are called **FICA**, 7.65% in total. Your employer pays a matching amount on top of your pay.

Pre-tax deductions

Some deductions come out **before** income tax is figured. Common ones are **401(k)** retirement contributions and **health insurance** premiums. Because they come out first, they lower your taxable income, so you pay less income tax.

One catch: traditional **401(k) contributions are still subject to FICA**. Social Security and Medicare are figured on your pay before the 401(k) is subtracted. Health insurance premiums paid through a standard employer plan are usually exempt from FICA as well as income tax.

What YTD means

YTD stands for **year to date**. The YTD column adds up each line from January 1 through this paycheck. It helps you track your total earnings and taxes for the year, and it should match your W-2 at year end.

Sample stub: Sam Sample (SAMPLE ONLY, not real)

Biweekly pay period. Sam earns $25.00 an hour for 80 hours, contributes 5% to a 401(k), and pays $75.00 for health insurance.

Line item	This period
Gross pay (80 hrs x $25.00)	$2,000.00
401(k), 5% (pre-tax)	-$100.00
Health insurance (pre-tax)	-$75.00
Federal income tax	-$150.00
State income tax	-$70.00
Social Security, 6.2% of $1,925.00	-$119.35
Medicare, 1.45% of $1,925.00	-$27.91
Total deductions	**-$542.26**
NET PAY	**$1,457.74**

How the math works: income tax is figured on $1,825.00 ($2,000 minus both pre-tax items). FICA is figured on $1,925.00 ($2,000 minus health insurance only, because the 401(k) is still subject to FICA). The tax amounts are made up for practice.

What to do if a number looks wrong

1. **Check your hours.** Compare the hours on the stub with your own records or timesheet.

2. **Compare with your last stub.** If a deduction suddenly changed, look for a reason, like a new benefit or a raise.

3. **Contact payroll or HR.** Ask politely and bring both stubs. Mistakes happen and are usually easy to fix.

This is a practice handout. All names and numbers are fictional.