

Let's Talk Taxes!

JEN: Ah yeah, my first paycheck! Time for a shopping spree. What the...? This is way less than I thought. What gives? Am I being scammed? Maybe I should have a word with the boss.

JOY: That's just withholdings.

JEN: What holdings?

JOY: Withholdings. It's the portion of your paycheck that your employer withholds for the government. You pay it now, so that you don't end up owing it at tax time. Let's just say this cake is your paycheck. The amount you earned pre-tax is your gross pay.

JEN: Well, that is kinda gross.

JOY: Gross as in the total amount. Now you have to pay taxes on that total, so your employer withholds a portion of each check.

JEN: Eek. That's brutal.

JOY: Heh, sure is. But it's necessary. What you're left with is your net pay, the amount you take home.

JEN: Swish, nothing but net!

JOY: Just... no.

JEN: That seems like a lot, but where does it all go?

JOY: That's hilarious. Oh, you're not kidding. OK, look. First of all, you have to pay the feds. Your federal tax goes to everything from unemployment benefits to education, infrastructure and national defense.

JEN: I should pay them in cake, then they'll really be fed.

JOY: Yeah, if you want the IRS to come after you. Totally not worth it. Anyway, state and local taxes work pretty much the same as federal taxes, but the rates depend on which city and state you live in. This money goes to schools, parks and rec, transportation and low-income assistance, plus many other uses that your state and local government determine. Next, you have FICA tax.

JEN: Ficus tax? What do houseplants have to do with this?

JOY: Way off. These taxes come from the Federal Insurance Contributions Act, or FICA. FICA tax is used for two things. Social Security to help you out with disability or retirement, and Medicare to help with medical costs for seniors and people on Social Security.

JEN: Guess I might need those someday.

JOY: Yeah, probably.

JEN: But there are more deductions on here, look!

JOY: That's hilarious. I make so much more than you.

JEN: Hey! I was talking about deductions...

JOY: OK, OK. Last, you have voluntary deductions.

JEN: I don't remember volunteering for anything.

JOY: Voluntary deductions are things you choose. Like employer-provided insurance, and 401(k) retirement savings. Your deduction is for the company health insurance plan.

JEN: Oh. Well, I guess it all makes cents, er, dollars, er, you know what I mean.

JOY: Sure, Jen... anyway, I've got some important texting to do, so...

JEN: Well, maybe I'll just...

CO-WORKER: Have you seen the birthday cake that I bought for my mom?

JOY: Uuuuh... Nope.