Name: **Date:**

Your First Paycheck

what actually happens to your money before you ever see it · Aydin Ali

The first time I got a paycheck that was smaller than the number my boss told me I'd be making per hour, I genuinely thought someone made a mistake. Nobody had explained withholding to me yet — that's this whole handout. This is Handout 2 of 6. If "APR" and "credit score" from Handout 1 are still fuzzy, that's fine, this one doesn't depend on them.

QUICK VOCABULARY

Gross pay — what you earned before anything is taken out.

Net pay — what actually hits your account. Also called take-home pay.

Withholding — money your employer takes out of every paycheck and sends to the government on your behalf, before you ever touch it.

W-2 vs. 1099 — the two ways you can be paid. Explained below — they work completely differently.

READING YOUR STUB

Gross pay and net pay are not the same number, on purpose

Here's a rough illustration of where the gap goes on a $500 paycheck. Your own numbers will be different — federal and state withholding depend on the W-4 you filled out and which state you're in — but two of these lines are fixed by law and identical for everyone.

Line on your stub	Illustrative amount
Gross pay	$500.00
Federal income tax withheld (varies by W-4)	−$40.00
State income tax withheld (varies by state)	−$15.00
Social Security — fixed at 6.2%	−$31.00
Medicare — fixed at 1.45%	−$7.25
Net pay (what you actually get)	**$406.75**

> Social Security and Medicare together are called **FICA**, and that 7.65% combined rate is fixed by law — it's the same percentage whether you're 16 or 46. The federal and state lines are the ones that move based on your W-4 and where you live.

HOW YOU'RE PAID

W-2 and 1099 are completely different arrangements

A **W-2** job means your employer withholds taxes for you automatically, like the table above — you get a W-2 form each January summarizing the year. A **1099** arrangement (freelance work, gig apps, informal jobs) means nobody withholds anything. You get the full gross amount, and you're responsible for setting aside and paying the taxes yourself — including both halves of FICA, since there's no employer splitting it with you. People who don't plan for this are the ones who get a surprise tax bill.

FILING

A refund is not a bonus

A tax refund means you had *more* withheld during the year than you actually owed, and the government is giving your own money back to you — with no interest for the months it sat with them. It's not free money; it's a preview of what a more accurate W-4 would have just left in your regular paychecks all year.

There's a minimum income level below which you may not owe anything or even need to file — but that exact number changes almost every year, so I'm not going to print one here and risk it being wrong by the time you read this. Look up the current year's number yourself (irs.gov), or ask someone who'd know. Filing can still be worth doing even under that threshold, if tax was withheld from your paychecks, since it's the only way to get it back.

TRY IT — READ YOUR OWN STUB

Bring an actual pay stub (yours, or a parent's with permission) and fill this in with the real numbers.

Gross pay: $______________

Federal withheld: $______________ State withheld: $______________

Social Security (6.2%): $______________ Medicare (1.45%): $______________

Net pay on the stub: $______________ Does gross minus everything above match it? Yes ☐ No ☐

QUESTIONS I ACTUALLY GET ASKED

FAQ

Do I have to file if I only made a few hundred dollars all year?

There's a minimum threshold, and it changes yearly — check the current number. But if any tax was withheld, filing is often worth it anyway, since it's the only way to get that money back.

Why is Social Security taken out when retirement is decades away?

It's not optional, and it doesn't sit in a personal bucket with your name on it — it funds current retirees, and your own future benefit is based on your earnings record over your entire working life. That record starts now, whether it feels relevant yet or not.

My "1099" job has me working set shifts my manager schedules — is that normal?

That's a common point of confusion, and sometimes a genuine misclassification issue. If it doesn't feel right, it's worth asking about rather than just accepting it as how things work.

What's a W-4 actually for?

It tells your employer how much to withhold. If you got a huge refund or owed a lot last year, updating your W-4 is how you fix that going forward.

QUICK RECAP

☐ Gross pay is what you earned; net pay is what you actually get.

☐ FICA (7.65% total) is fixed by law and funds Social Security and Medicare.

☐ W-2 means taxes are withheld for you. 1099 means you owe it yourself.

☐ A refund is your own overpaid money coming back, not a bonus.

☐ Check the current year's filing threshold instead of trusting an old number.

TRY THIS BEFORE NEXT SESSION

When you get your next real pay stub, fill out the worksheet on this page with the actual numbers instead of the illustrative ones.

Handout 3 is protective: how to spot scams and predatory debt before they ever touch a paycheck like this one. — aeacapitalresearch.com