

Your First Paycheck Explained

Understanding Where Your Money Really Goes

Teen Finance Toolkit

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Introduction: Why This Matters

Getting your first paycheck is exciting—until you see the numbers. Most teens expect to earn exactly what they calculated (hours × hourly wage), but the actual amount in their account is often 20-30% less.

This guide explains exactly where that money goes, why it matters, and what you need to know about your paycheck. By the end, you'll understand how to read a pay stub, calculate your real take-home pay, and plan your budget accordingly.

□ **Quick Example:**

Work 30 hours at \$15/hour = \$450 gross pay. After taxes and deductions, you might take home only \$350-365. This guide shows you exactly why—and helps you plan accordingly.

Understanding the Basics

Gross Pay vs. Net Pay

Gross Pay is the total amount you earn *before* any deductions are taken out. It's calculated based on your hours worked and hourly wage (or your salary if you're salaried).

Formula: **Hours Worked × Hourly Wage = Gross Pay**

Net Pay (also called *take-home pay*) is the amount that actually lands in your bank account *after* all deductions. This is the money you can actually spend or save.

Formula: **Gross Pay - All Deductions = Net Pay**

Real-World Example

Let's say you work at a retail store for \$15/hour and work 30 hours over two weeks:

Hours Worked	30 hours
Hourly Wage	\$15.00/hour
GROSS PAY	30 × \$15.00 = \$450.00

But \$450 is NOT what you'll see in your bank account. First, we need to subtract the deductions...

Breaking Down the Deductions

There are several mandatory deductions that come out of every paycheck. Let's break down each one:

1. Federal Income Tax

What it is: Money withheld by your employer and sent to the federal government to cover your annual income tax obligation.

How much: Varies based on your income and how you filled out your W-4 form. For most teens, it's around 10-12% of gross pay.

In our example: $\$450 \times 10\% = \45.00

Important to know: If too much is withheld throughout the year, you'll get a refund when you file taxes. If too little is withheld, you'll owe money. Most teens with only part-time income get a refund.

2. Social Security Tax (FICA)

What it is: Mandatory contribution to the Social Security system, which provides retirement benefits, disability insurance, and survivor benefits.

How much: Exactly 6.2% of your gross pay (everyone pays this rate, regardless of income).

In our example: $\$450 \times 6.2\% = \27.90

Important to know: Your employer matches this amount (pays another 6.2%), so the government receives 12.4% total. You earn "credits" toward future Social Security benefits.

3. Medicare Tax (FICA)

What it is: Mandatory contribution to Medicare, the federal health insurance program primarily for people 65 and older.

How much: Exactly 1.45% of your gross pay (everyone pays this rate).

In our example: $\$450 \times 1.45\% = \6.53

Important to know: Like Social Security, your employer also pays 1.45%, for a total of 2.9% going to Medicare.

4. State Income Tax

What it is: Money withheld for your state's income tax (if your state has one).

How much: Varies widely by state. Some states have no income tax (like Texas, Florida, Washington), while others have rates from 1-13%. For most teens, it averages 3-5%.

In our example: $\$450 \times 4\% = \18.00 (assuming a state with income tax)

Important to know: Check your state's tax rate. If you live in a state with no income tax, you won't have this deduction!

Putting It All Together

Now let's add up all the deductions from our example:

Deduction Type	Amount
Gross Pay	\$450.00
Federal Income Tax	-\$45.00
Social Security Tax	-\$27.90
Medicare Tax	-\$6.53
State Income Tax	-\$18.00
NET PAY (Take-Home)	\$352.57

Bottom line: You earned \$450 but only take home \$352.57. That's about 78% of your gross pay—or roughly a 22% reduction due to taxes and deductions.

This percentage is fairly typical for teens with part-time jobs. Your actual percentage might be slightly higher or lower depending on your state and how you filled out your W-4.

Common Questions

Q: Why do I have to pay taxes if I don't make much money?

A: You might not actually owe taxes at the end of the year! If your total annual income is below the standard deduction (around \$14,600 for 2025), you'll get all your federal income tax back as a refund when you file. However, Social Security and Medicare taxes (FICA) are never refunded—everyone who works pays these.

Q: What's a W-4 form?

A: The W-4 is a form you fill out when starting a new job. It tells your employer how much federal income tax to withhold from each paycheck. Most teens claim "exempt" or use the default settings, which usually means a full refund at tax time.

Q: Can I change how much tax is taken out?

A: Yes! You can submit a new W-4 to your employer at any time. If too much is being withheld, you can adjust it to take home more each paycheck (but you might owe at tax time). If too little is withheld, you can increase it to avoid owing taxes later.

Q: Do I need to file taxes?

A: If you had federal income tax withheld and want to get it back, yes! Even if you're not required to file (because your income is below the threshold), you *should* file to claim your refund. Filing is free using tax software like TurboTax Free Edition or IRS Free File.

Q: What if I work in one state but live in another?

A: You'll typically have taxes withheld for the state where you work. You may need to file tax returns for both your work state and home state. Some states have reciprocal agreements to avoid double taxation. Check with your employer's payroll department or a tax professional.

Action Steps: What to Do Next

Now that you understand your paycheck, here's what you should do:

1. **Review your next pay stub** - Look for each deduction we discussed and make sure the amounts make sense
2. **Calculate your real hourly rate** - Divide your net pay by hours worked to see what you actually earn per hour after taxes
3. **Budget based on net pay, not gross** - Always use your take-home amount when planning what you can afford
4. **Save your pay stubs** - You'll need them for tax filing and possibly for financial aid applications
5. **Plan to file taxes** - Even if you're not required to, file to get your refund (usually in January-April)
6. **Use the interactive calculator** - Log into your Teen Finance Toolkit account and use the Paycheck Calculator tool to estimate your take-home pay for any wage and hours

Use the Interactive Tool

Log into your Teen Finance Toolkit dashboard and use the **First Job Paycheck Calculator** to get personalized estimates based on your exact hourly wage, hours, and state.

Visit:

TeenFinanceToolkit.com/tools/paycheck-calculator

Additional Resources

More Guides in Your Library

Check out these related guides in your Teen Finance Toolkit library:

- Building Your First Budget
- Understanding Taxes for Teens
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