

Payroll calculations are defined as the various numbers and processes that are performed by an employer, the sum of which equals an employee's pay.

An employer calculates payroll by calculating gross wages and payroll deductions, to arrive at an employee's net pay. Payroll calculations may be done by hand, with the use of tax tables and various other sources of information. Alternatively, payroll may be calculated using payroll software, which is typically a system that is set up and regularly updated to do payroll calculations behind the scenes, each time payroll is processed. An employer may also choose to outsource the entire payroll process, including payroll calculations, by hiring a payroll service to perform payroll functions on their behalf.



## Gross Regular Pay

There are several ways to calculate pay for employees: salaried, hourly, piece work or commission. For hourly workers, time worked is calculated according to employer's rules, which includes the pay rate, per hour and the pay frequency. Hourly workers may also receive overtime pay. These calculations determine the hourly employee's gross regular pay. For salaried workers, such calculations are not necessary as they are paid a fixed wage, and do not typically qualify for overtime pay. Their fixed wage is essentially their gross regular pay. Resources are available with the Department of Labor, to help employers learn the specific criteria regarding salary overtime, and which workers should be salaried and exempt from overtime protection laws. Some employees are paid via piece work, meaning they are paid on the quantity of work they do, such as by the numbers of bushels of strawberries picked, etc. Their pay is calculated by their specifically determined rate and piece, and the employer is also responsible for ensuring that employee makes at least minimum wage. Then there are commissioned employees. These employees, often working in a sales capacity, are paid either a fixed amount, a percentage, or a combination of the two, based on the products or services they sell.

## Statutory Payroll Deductions

Statutory payroll deductions include: payroll taxes, federal income tax, Social Security tax and Medicare tax, state income tax (if applicable) and local tax withholdings (if applicable) such as city, county, or school district taxes, and state disability. An employee's W-4 form is used to determine the federal income tax amount, which varies by employee. State income tax (if applicable) depends on the employee's state income tax form and the state withholding tax tables.

## **Voluntary Payroll Deductions**

Voluntary payroll deductions include, for example, retirement benefits, medical, dental, life and disability insurance, and other benefits offered by the employer, for which a deduction is necessary. These vary by company and by the deduction type. These deductions may be taken pre-tax or after-tax, and it is wise to consult with an accountant for advice about which deductions are taken pre-tax or after-tax.

It is worth noting that there are some very important payroll components which do not come out the employee pay; however they do still involve calculations. These are items that the employer pays on behalf of the employee, such as the employer's portion of taxes: Medicare, Social Security, federal and state unemployment taxes, and workers compensation. These also include any employer paid benefits, such as the employer paid portion of health insurance, employer matching on 401K, etc. Though they do not come out of the employee's pay, they still need to be calculated and tracked.

Once an employee's gross regular pay has been calculated, both types of payroll deductions are subtracted from that figure, resulting in the employee's net pay - essentially the amount to be paid to the employee. Payroll calculations are of course, only one step in the process of payroll for an employer, though a very important step indeed. Ensuring the correct amount is paid to the employee is not only important to that employee, but also to the state, federal and local government, from whom penalties are incurred if tax filing is incorrect or late.

CenterPoint Payroll software can handle simple to complex payroll calculations. If your payroll system is unable to keep up with the payroll calculations needed to fit your organization's needs, sign up for a CenterPoint Payroll Demonstration today. CenterPoint Payroll is available online, or as a locally installed system.