

The term 'payroll deduction' represents money withheld from employees' paychecks by their employer. Understanding payroll deductions is imperative for an employer, and is typically handled within a payroll software system, with some employers still handling it by hand. The goal of this article is to break down the types of payroll deductions, and to offer tips for better managing this crucial payroll element. Payroll deductions can be broken down into two categories: statutory payroll deductions and voluntary payroll deductions.



## Statutory Payroll Deductions

Statutory payroll deductions are those required by government agencies and include: Social Security tax, Medicare tax, state income tax (if applicable), payroll taxes, federal income tax, local tax withholdings (if applicable), such as county, city or school district taxes, state disability, and court ordered garnishments. Employees use the employee's W-4 form to determine the federal income tax amount. State income tax (if applicable) depends on the employee's state income tax form and state withholding tax tables.

## Voluntary Payroll Deductions

Voluntary payroll deductions can vary greatly by employer, and typically include such things as retirement benefits, life and disability insurance, medical and dental, and other benefits, for which a deduction is necessary. These deductions vary, since some employers offer, for instance, healthcare benefits, whereas others do not. Voluntary deductions may be taken pre-tax or after-tax, depending on the deduction type. It is wise to consult with an experienced accountant when setting up payroll deductions, to be sure they are being deducted correctly.

## Manual or Automatic Payroll Deductions

There are still many organizations/payroll managers who track payroll deductions manually, despite the fact that many payroll systems can now handle some of the most complex deduction calculations. If you get nothing more out of this article than one thing, let it be that tracking payroll deductions in a payroll software system is much more efficient than manual tracking, no matter whether you currently use a spreadsheet or track them by hand. The more basic programs only allow for the tracking of a limited number of predefined codes. However, the more advanced programs do offer customization of codes for the varied needs of businesses. The tracking of this information manually can lead to needless errors and significantly more work for you and your payroll team. When you have this information set up within a payroll system, deduction codes are working behind the scenes to calculate correctly for you, each time payroll is run.

It is worth noting that there are some crucial payroll components that don't come out of the employee pay, but 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.

CenterPoint Payroll, an installed or cloud-based program, can handle some of the most complex payroll deductions and can simplify this function for nearly any type of business. To learn more about CenterPoint Payroll, please visit this link: [\*\*CenterPoint Payroll Software.\*\*](#)