

2000-14

Paychecks Don't Show Hidden Deductions

by Shelby Johnson - Research Assistant

Paycheck Sticker Shock

Most of us are familiar with the “sticker shock” we experience on seeing a paycheck. Our pay stubs note the standard deductions for Medicare, Social Security, and federal income taxes. It is no secret that our labor is taxed.

But what many people don't realize is that a large chunk of every worker's salary is deducted before the paycheck is written—in the form of employer-paid payroll taxes. These “hidden” taxes often go unnoticed because they are not reported on the worker's pay stub, but they nonetheless raise the worker's overall market cost—that is, the amount the employer must pay to employ each worker.

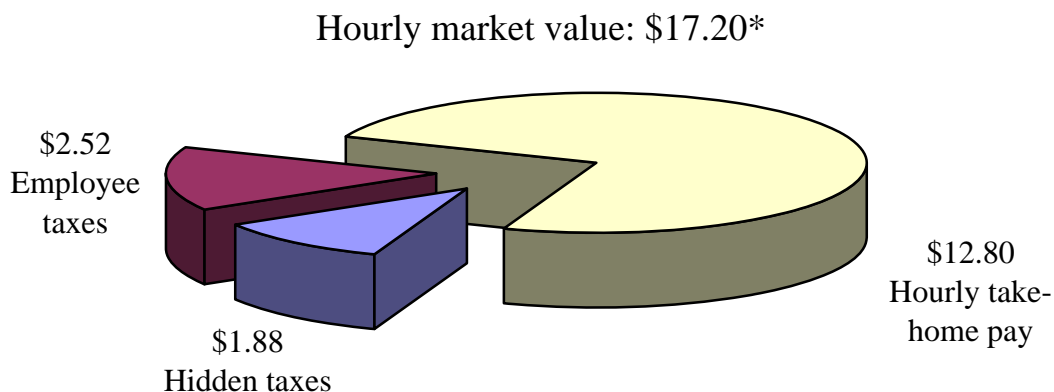
Not Getting Paid What You're Worth

To study this, we examined the average manufacturing worker in Washington state. In gross wages he earns \$15.30 an hour and just under \$31,000 a year. For each hour that he works, his boss pays his hourly wage of \$15.30, plus an additional \$1.88 in taxes to the government for unemployment insurance, workers compensation, and the employer share of the Social Security/Medicare tax.

In this case the true market value of his time and talents is actually \$17.20 per hour, not including any extra benefits his employer provides, such as health insurance or other fringe benefits.

SLICING THE PAYCHECK PIE

Your paycheck is hit by taxes both before and after you receive it. Almost half of all payroll taxes are paid by employers, so the employee's total tax burden is almost twice as much as he or she may think. For the average manufacturing worker in Washington state, the government's total share is over 25%.

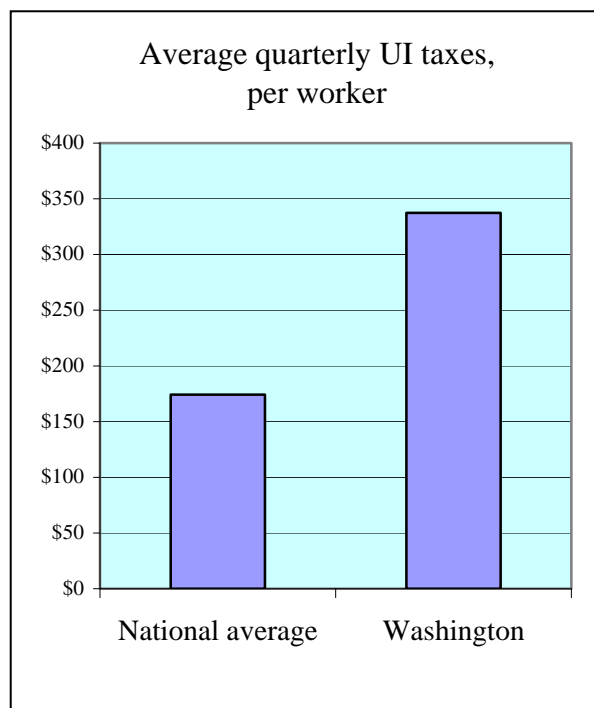


*The total amount that your employer pays to employ you. Data for average manufacturing worker, Washington state.

From the \$15.30 gross wage that appears on his pay stub, another \$2.52 is deducted for his share of Social Security, Medicare and federal income taxes, leaving his hourly take-home pay at \$12.80. This means that annually the market value of all his hard work is almost \$9,000 higher than what he gets paid. The government receives over a quarter of what he is worth, and 43% of that is taken in hidden, employer-paid taxes. For higher income workers, government's share is even greater.

Hidden Taxes on the Rise

These hidden taxes are on the rise. Washington's unemployment insurance (UI) taxes are among the highest in the nation, according to a 1998 study by the New England Economic Review. Our per-worker payments are the sixth highest in the country. Of the 28 states they studied, Washington had the largest tax base for UI payments—a figure that has more than doubled over the last two decades. In addition, the Social Security/Medicare tax rate has nearly doubled since 1980. An employer's increased cost of keeping a worker on the payroll is not reflected in his wage, or even reported on his pay stub. But they are taxes on the employee just the same.



In order to make rational decisions, voters must have accurate information. When taxes are paid by employers, the overall tax burden is less evident to the general public. A good tax system should make all taxes visible to voters, so they can make informed decisions on whether government programs are worth their cost. At the least, employers should use paycheck forms that include employer-paid taxes, and help their employees become informed voters.

<i>The Breakdown of a Paycheck*</i>	
Your market value: what your employer pays to employ you	\$1,326.86
Social Security/Medicare, employer's share	(\$90.14)
Worker's Compensation insurance	(\$33.95)
State unemployment insurance	(\$22.35)
Federal unemployment insurance	(\$2.15)
TOTAL HIDDEN TAXES	(\$148.59)
Your gross pay	\$1,178.26
Social Security/Medicare, employee's share	(\$90.14)
Federal Income Tax	(\$103.46)
Your take home pay	\$984.65

*1998 estimate for the average manufacturing worker in Washington State. Data collected from the Washington State Dept. of Employment Security, Dept. of Labor and Industries, and Labor Market Information Division. Federal income tax estimate is from the 1999 1040 tax schedule and assumes the worker is married. Calculation based on a bimonthly paycheck and a standard work week of 40 hours.