Name: _____ Date: _____

How Does a Paycheck Work?

Reading level 10 (6th grade) · 1222 words

How does a paycheck work? Dana had wondered for two weeks. She was fifteen, and she had just finished her first stretch at a bookstore. She stocked shelves for fourteen hours at $12 an hour. By her math, the check should say $168. Instead it said $155.14. She checked the subtraction twice. Then she carried the stub to her aunt Lena, who does payroll for a trucking company. "Where did almost thirteen dollars go?" Dana asked. Lena laid the stub flat on the kitchen table. Dana and Lena are made up. The rules in this book are real.

"Start with the two top lines," Lena said. Gross pay is everything a worker earned before anything is taken out. For an hourly job, it is the hourly rate times the hours. Dana's was fourteen times twelve, or $168. Net pay is what is left after deductions. People also call it take-home pay. "The check shows the net," Lena said. "Everything between the two lines is a deduction. Each one has a reason, and you are allowed to ask what it is."

The first deductions were two payroll taxes. In 2026, the Social Security tax is 6.2 percent of pay. The Medicare tax is 1.45 percent. Both rates come from the IRS. On Dana's $168 they come to $10.42 and $2.44, or $12.86 together, by our arithmetic. That is the whole gap, because $168 minus $12.86 is $155.14. Her employer pays the same two percentages again on top of her wages. So Dana's stub showed only half of what the bookstore sent in.

"Is that money just gone?" Dana asked. Lena said that Social Security keeps score in credits. Earnings that the tax covers are called covered earnings, and they are counted by the year. In 2026, each $1,890 of them in a year earns one credit. Retirement benefits need 40 credits. Dana's $168 counts toward her total for the year. Alone, it was far short of one credit. It was a start, though, and years of work would add to it.

The third line was federal income tax. Lena pointed to the Form W-4 that Dana had signed on her first day, which every new worker fills out. The IRS says it tells an employer how much federal income tax to withhold from your pay. It asks about filing status, other jobs, credits and deductions, and on Dana's stub the line said $0.00. A state can add its own tax. Most states tax wages, but nine do not.

Withholding is an estimate made before the year ends, so a tax return settles it. A refund is money handed back when more tax was withheld than the person owed. The IRS describes the trade this way. Withholding more gives a smaller paycheck now and a bigger refund later. Withholding less does the reverse. "Is a refund a bonus?" Dana asked. "Mostly, it is your own money coming back," Lena said. "The IRS hands back what was withheld beyond what you owed."

Does a fifteen-year-old have to file a tax return? The IRS ties the answer to income, and for someone a parent can claim as a dependent, a single filer under 65 had to file for 2025 if earned income was over $15,750. Working for yourself has its own rule. Mowing lawns for neighbors on your own is our example. If net earnings from that kind of side job pass $400, the IRS says to file. Dana was far below both numbers. The IRS adds that people under the limit may still get money back by filing.

Dana's $12 was not an accident. The federal minimum wage is $7.25 an hour, and it has stayed there since July 24, 2009. It applies to workers the law covers. Many states set a higher wage, and a few have none, so the federal one applies. Federal law also lets an employer pay workers under 20 as little as $4.25 an hour for their first 90 days. Some states allow lower pay for minors or students too. That is how Department of Labor pages read in 2026, and any of it can change.

Lena turned to the work schedule on the fridge. "Your hours have rules too," she said. The Department of Labor says the youth rules exist so that work does not harm a young person's health, well-being or schooling. For fourteen- and fifteen-year-olds, federal law allows work only outside school hours. That means three hours on a school day and eighteen in a school week. The hours must fall between 7 a.m. and 7 p.m., with a later evening hour in summer. Dana's fourteen hours fit easily inside those limits.

Lena counted the allowed jobs on her fingers. The rules limit which jobs a fifteen-year-old can hold. Bagging groceries, office work, stocking shelves and cashiering are on the list. Running power machinery or working from a ladder is not. At sixteen, the federal hour limits end, though many states keep their own. Some jobs stay closed until eighteen, such as most driving on public roads or roofing. Federal law does not require work permits, but many states do. When state and federal rules both apply, the stricter one must be followed.

Dana's check went into a bank account that her mother had opened with her. Federal bank regulators said in 2015 that no federal law bars a minor from opening a savings account. But the account is a contract, and state law governs contracts. Minors are generally treated as unable to sign them. So a parent often co-owns a young teen's account. Deposits at an FDIC-insured bank are covered to at least $250,000 per depositor. Credit unions have the same limit through a different agency, the NCUA.

Why would a bank pay anyone to keep money there? Because it lends the deposits out. A bank generally charges borrowers more than it pays savers. That gap is how it earns a profit, the St. Louis Fed explains. In October 2026, the FDIC's national average rate on savings accounts was 0.38 percent a year, though rates vary by bank. By our arithmetic, that is about 59 cents a year on Dana's $155.14. Once interest is added, the next interest is figured on the bigger total. That is compound interest.

Dana's bank also gave her a debit card. A debit card spends money that is already in the

account. A credit card is different, because the card company lends the money. The loan must be repaid by the due date. Paying less than the full amount means paying interest, stated as a yearly rate called the APR. Federal law generally bars a company from issuing a card to anyone under 21. The exceptions are a person who shows an independent ability to pay, or a co-signer over 21 who agrees to be responsible.

In January, the bookstore will send Dana a Form W-2. It sums up the year's wages and the tax withheld. The IRS says to ask the employer if it has not arrived by early February. Dana read her first stub again, from top to bottom, slowly this time. Gross pay, $168. Net pay, $155.14. Between them sat two payroll taxes and one line of $0.00 for income tax, set by a W-4 she had signed on her first day. She could now name every dollar.

Questions

1. What is net pay?

A. Pay before anything is taken out
B. What is left after deductions
C. The lowest pay the law allows

2. Why was Dana's check smaller than $168?

A. Payroll taxes were taken out of her pay
B. She worked fewer hours than she thought
C. The bank kept part of it

3. In this book, what is a refund?

A. A new job offer
B. A fee for using a bank
C. Money handed back when too much tax was withheld

4. What is the federal minimum wage, and has it changed since 2009?

A. $12 an hour, and it rises each year
B. $7.25 an hour, and it has not changed
C. $17.13 an hour, and it varies by month

5. Why does a parent often co-own a young teen's bank account?

A. Minors are generally treated as unable to sign contracts
B. Banks do not pay interest to teens
C. The FDIC will only insure adults

6. How is a credit card different from a debit card?

A. It spends money already in the account
B. It borrows money that must be repaid
C. It cannot be used in stores

Words to know

gross: before deductions
net: after deductions
withhold: hold back
refund: money returned
deposits: money put in

Answer key: How Does a Paycheck Work?

1. B. What is left after deductions
2. A. Payroll taxes were taken out of her pay
3. C. Money handed back when too much tax was withheld
4. B. $7.25 an hour, and it has not changed
5. A. Minors are generally treated as unable to sign contracts
6. B. It borrows money that must be repaid