

The Benefits of Pre-Tax Payroll Deductions - Reducing Payroll Taxes

<u>Pre-Tax Deduction</u>	<u>Does this deduction reduce the following payroll tax?</u>		
	<u>Social Security and Medicare Taxes</u>	<u>Federal Income Tax Withholding</u>	<u>State Income Tax Withholding</u>
403b Tax Sheltered Annuity	No	Yes	Yes
Group Health Insurance	Yes	Yes	Yes
Flexible Spending	Yes	Yes	Yes
Iowa Public Employees Retirement System (IPERS)	No	Yes	Yes

The above payroll deductions save you money because they are "pre-tax". Pre-tax means that the deduction reduces some of your payroll taxes.

For example, for flexible spending, as indicated above for flexible spending it reduces all three taxes. So if your tax rate for social security/medicare is 7.65%, your federal income tax withholding rate is 16.35%, and your state income tax rate is 6%, you will save 30% on your flexible spending deduction. So if your flexible spending payroll deduction is \$100 monthly, your payroll taxes will be reduced by 30% (or \$30).

