2016 Payroll Fact Sheet

How Does a Monthly vs. a Biweekly Salary Affect Taxes?

Employers and employees have personal preferences when it comes to biweekly and monthly paychecks. Some employees may find it easier to budget on one paycheck a month, while others prefer to get two paychecks each month. An accounting department may find it easier to calculate monthly deductions if employees are paid on a monthly basis. However, there is no appreciable difference between the two types of pay cycles where taxes are concerned.

Terms

When a salary is paid out in monthly installments, an employee receives 12 checks a year; for instance, checks may go out on the first of every month. This means that taxes are withheld 12 times. In a biweekly pay cycle, employees are paid and taxes are withheld 26 times a year, typically on every other Friday. The biweekly cycle should not be confused with a semimonthly pay cycle, in which employees are paid twice each month and a total of 24 times each year.

Different Tax Rates

Technically speaking, a larger percentage of an employee's annual income taxes will come out of each paycheck if he is being paid monthly. An employee will pay about 2.17 times more tax out of each monthly paycheck than he would each biweekly paycheck. However, this difference should not have a meaningful effect on an employee's finances, because he also will receive 2.17 times more salary per monthly paycheck than he would per biweekly paycheck.

Payroll Departments and Pay Frequency

HR Magazine notes that payroll departments often prefer payroll cycles with less frequency simply because paychecks need to be cut less frequently. However, this is mitigated by the fact that employees tend to prefer a biweekly paycheck to a monthly paycheck. This could be why, according to a study by the Hackett Group, 69 percent of payroll organizations in the United States paid employees on a biweekly basis, and only 6 percent reported making payments on a monthly basis. Payroll departments pay the same annual salaries and payroll taxes regardless of which cycle they follow.

Individual Taxes and Payroll Frequency

At the end of each year, individuals must resolve the differences between taxes they paid and what they actually owed the government. This is done by filing taxes by April 15. The primary factors affecting an individual's tax liability are income bracket, number of exemptions claimed and any deductions for which he is eligible. The frequency with which he was paid during the year will have no effect whatsoever on an individual's tax liability.

14950 East Jefferson, Suite 100 Grosse Pointe, Michigan 48230 Office 313-331-4595 Fax 313-331-0874
2352 Main Street, Suite 303, Concord, Massachusetts 01742 Office 978-450-2900 Fax 978-319-4104