



# From Gross to Net: A Guide to Calculating World-Class Payroll



# What Makes This Guide Different?

This isn't your typical accounting guide. The best way to learn is by seeing how principles apply to real people and real-world situations. Here's what you will learn exclusively in this guide:



## Learn Through Relatable Scenarios

Forget dry, generic examples. You'll learn by seeing how payroll is calculated for a global team—like Jenelie, a graphic designer in Tokyo working late hours; Pat, a remote employee in the U.S. navigating pre-tax deductions; and Cris, a developer in Manila earning overtime.



## Gain a Unique 3-Country Perspective

Master the practical differences in payroll for Japan, the USA, and the Philippines. This guide provides a side-by-side comparison you won't find elsewhere, showing you exactly how to handle Japanese stacked premiums, U.S. pre-tax deductions, and the mandatory 13th Month Pay in the Philippines.



## Master Calculations (Even if You Dislike Math)

Every payroll calculation is broken down into simple, step-by-step instructions. You'll see exactly how to get from gross pay to net pay without feeling overwhelmed, and even tackle real-world challenges like combined overtime and night shift premiums.



## Avoid Common International Mistakes

Learn about the most common errors beginners make in multi-country payroll and how you can avoid them from the start.

# How to Hack Your Brain for Accounting: The SEKAEL Method



Why do 90% of students forget what they study within a week? It isn't because they aren't smart. It's because they only use one part of their brain: the passive, logical side. To master a new language—and accounting *is* a language—you need to engage your motor skills, your emotions, and your memory centers simultaneously.

We have designed this course around a scientifically backed three-step cycle called **Read-Practice-Remember**. Here is the science behind why it works and how to use it.

# 1. READ

## **Goal: Build the Framework**

First, read the content in this guide. We break down complex concepts into simple stories.

### ***Action:***

Read the definitions and examples. Don't try to memorize them yet; just understand the "why."



## 2. PRACTICE



### **Goal:**

**Active Retrieval** Knowledge without application fades instantly. At the end of key sections, open the **Interactive Quizzes** link.

### **Action:**

Test yourself immediately. If you get an answer wrong, our system gives you instant feedback, correcting the neural pathway before a bad habit forms.

## 3. REMEMBER

**Goal: Lock it in Forever** This is where most courses stop, and where SEKAEL begins. We use a **Karaoke-based learning system** because neuroscience proves that music is not just for fun—it is a cognitive super-weapon.



# The Evidence: Why You Must *Sing* to Learn

We didn't just guess this works. Research confirms that musical mnemonics are superior to rote memorization:



## Singing Beats Speaking

A randomized experiment found that adult learners who used a "listen-and-sing" method demonstrated significantly better verbatim recall than those who just spoke the words. Singing engages multiple areas of the brain, creating a stronger memory "trace."



## The "Cognitive Workout"

A controlled trial showed that frequent karaoke training actually improved frontal executive skills—the part of the brain responsible for focus and inhibition. When you sing our rules, you are physically training your brain to focus.



## Mood & Arousal

Research indicates that positive mood and appropriate arousal levels, triggered by upbeat music, directly bolster cognitive performance. Our tracks are designed to keep you in this optimal "learning zone."

# Your Workflow



**READ** the concept in this guide.



**ANSWER** the **Interactive Quizzes** to practice what you have learned.



**SING** to lock the rule in your long-term memory.

*Ready to hack your brain? Turn the page to begin.*

## Scientific References:

1. **Ludke, K. M., Ferreira, F., & Overy, K. (2014).** *Singing can facilitate foreign language learning.* *Memory & Cognition*, 42, 41–5, [https://www.researchgate.net/publication/249966411\\_Singing\\_can\\_facilitate\\_foreign\\_language\\_learning](https://www.researchgate.net/publication/249966411_Singing_can_facilitate_foreign_language_learning)
2. **Miyazaki, A., & Mori, H. (2020).** *Frequent Karaoke Training Improves Frontal Executive Cognitive Skills...* *International Journal of Environmental Research and Public Health*, 17(4), 1459, [https://www.researchgate.net/publication/339484120\\_Frequent\\_Karaoke\\_Training\\_Improves\\_Frontal\\_Executive\\_Cognitive\\_Skills\\_Tongue\\_Pressure\\_and\\_Respiratory\\_Function\\_in\\_Elderly\\_People\\_Pilot\\_Study\\_from\\_a\\_Randomized\\_Controlled\\_Trial](https://www.researchgate.net/publication/339484120_Frequent_Karaoke_Training_Improves_Frontal_Executive_Cognitive_Skills_Tongue_Pressure_and_Respiratory_Function_in_Elderly_People_Pilot_Study_from_a_Randomized_Controlled_Trial)
3. **Thompson, W. F., Schellenberg, E. G., & Husain, G. (2001).** *Arousal, mood, and the Mozart effect.* *Psychological Science*, 12(3), 248–251, [https://www.researchgate.net/publication/236679292\\_Arousal\\_Mood\\_and\\_The\\_Mozart\\_Effect](https://www.researchgate.net/publication/236679292_Arousal_Mood_and_The_Mozart_Effect)

## Chapter 1

# Section 1: Introduction to the Payroll Process

Payroll is one of the most critical functions in any business, representing the structured process of paying employees for their work. It's more than just writing checks; it involves a detailed sequence of calculating earnings, withholding taxes, and ensuring compliance with national and local laws.

For the business itself, proper payroll management is essential for accurate financial reporting and maintaining employee morale.

# The Four Core Steps of a Pay Cycle

1

## Time & Attendance

This foundational step involves collecting and verifying the exact hours each employee worked during a pay period. Modern systems use everything from simple timesheets to digital clock-ins. The key is to accurately capture not just total hours, but to categorize them correctly—distinguishing regular hours from overtime, work performed on public holidays, or late-night shifts, as each may be paid at a different rate.

2

## Calculating Gross Pay

Once hours are verified, the next step is to calculate an employee's total earnings *before* any money is taken out. This is the gross pay. For hourly employees, it's their hourly rate multiplied by the hours worked, including any premium pay. For salaried employees, it's their fixed salary, plus any additional compensation. This figure represents the total cost of the employee's labor for the period.

3

## Calculating Deductions

This is where gross pay is reduced to determine the employee's take-home amount. Deductions fall into two main categories: statutory (legally required) deductions like income tax and social security, and voluntary deductions, such as contributions to a retirement plan, health insurance premiums, or union dues. Each deduction is calculated based on specific rules and rates.

4

## Calculating Net Pay

This is the final and most anticipated number for the employee. Net pay, or take-home pay, is what remains after all deductions have been subtracted from the gross pay. This is the amount that is actually deposited into the employee's bank account.

After these steps are completed, the company's accountant records the entire transaction through **Journal Entries**, ensuring the company's financial statements accurately reflect the cost of labor and the liabilities owed to the government and other entities.



## Section 2: Key Payroll Vocabulary

Understanding these core terms is fundamental to grasping payroll concepts.

### Gross Pay

The total, pre-deduction earnings of an employee. Think of this as the "top-line" number before anything is taken out. It's the figure used to calculate the impact of overtime and is the starting point for tax calculations.

### Net Pay (or Take-Home Pay)

The final amount an employee receives. This is the "bottom-line" number on a payslip—the actual cash the employee can spend.

### Overtime

Any hours worked beyond the standard workweek (e.g., over 40 hours in the U.S.). It is almost always compensated at a higher rate to reward employees for the extra time.

### Premium Pay

The additional "bonus" rate paid for non-standard hours. This isn't just for overtime; it can also apply to working on holidays, weekends, or late-night shifts, depending on local laws and company policy.

## Statutory Deductions

These are non-negotiable withholdings mandated by law. A company acts as a collection agent for the government, withholding these funds and remitting them on the employee's behalf.

## Employer Contributions

This is a crucial concept. It represents the "hidden" costs of employment for a company. On top of the employee's gross pay, the company must also pay its own share of social security, unemployment insurance, and other benefits. This amount is an expense to the company but is *not* taken from the employee's pay.

## Withholding

The process of an employer setting aside a portion of an employee's gross pay for payment of taxes, benefits, or other contributions.

## 13th Month Pay / Bonus

Additional compensation often tied to performance or legal requirements. In the Philippines, the 13th Month Pay is a mandatory, legally protected benefit, whereas in the U.S. and Japan, an annual bonus is typically discretionary and based on company or individual performance.



## Section 3: The Three Essential Formulas

At its heart, payroll is governed by a few straightforward mathematical relationships.

**Gross Pay = Base Pay +  
Allowances + Premium  
Pay**

**Total Deductions = Taxes +  
Social Insurance + Other  
Contributions**

**Net Pay = Gross Pay -  
Total Deductions**



# Premium Pay Calculation

The calculation for premium pay is where the most variation occurs.

 **Premium Pay = Hourly Rate × Premium Rate × Hours Worked**

## Example:

An employee's hourly rate is **\$20**. The overtime premium rate is **25%** (0.25). The employee worked **2 hours** of overtime.

- The *premium pay* is:  $\$20 \times 0.25 \times 2 \text{ hours} = \mathbf{\$10}$ .
- This **\$10** is the *additional* compensation. The employee also earns their regular pay for those two hours ( $\$20 \times 2 = \$40$ ).
- The total pay for the two overtime hours is  $\$40$  (regular) +  $\$10$  (premium) = **\$50**.

A common shorthand for overtime in the U.S. is "time-and-a-half," which means 1.5 times the regular hourly rate. For a \$20/hour employee, this would be  $\$20 \times 1.5 = \$30$  per hour. This is mathematically the same as a "50% premium."

## **Section 4: Payroll in Practice - A Global Look**

# Japan

## Premium Pay Rates

Japanese law is very specific about minimum premiums to protect workers.

### Overtime

+25%

### Legal Holiday

+35%

### Late-Night Work

(10 PM to 5 AM)+25%

### Stacking Premiums

A key feature of the Japanese system is that these premiums are additive. An employee working overtime that extends past 10 PM is entitled to *both* the overtime premium and the night premium, for a total of +50% for those hours.

### Deductions

The system is comprehensive. Key deductions include national Income Tax, local Residence Tax, and a robust Social Insurance package covering health, pension, and employment insurance. The Residence Tax is unique in that it's based on the employee's income from the *previous* year, meaning a new employee might not pay it until their second year.





# The United States

## Exempt vs.

## Non-Exempt

This is the cornerstone of U.S. overtime law under the Fair Labor Standards Act (FLSA).

### Non-Exempt

Employees in this category are entitled to overtime pay, typically at **1.5x their regular rate** for any hours worked over 40 in a workweek. Most hourly workers fall into this category.

### Exempt

These are typically salaried employees in administrative, professional, or executive roles who are *not* eligible for overtime. Specific salary and duty tests must be met to classify an employee as exempt.

## Pre-Tax Deductions

This is a major feature of U.S. payroll. It allows employees to contribute to retirement accounts (like a 401(k)) or pay for health insurance *before* income tax is calculated. This is a powerful tool for reducing an employee's overall tax burden, as it lowers their taxable income.

## Taxes

The U.S. tax structure is multi-layered. An employee's paycheck is typically subject to Federal Income Tax, Social Security & Medicare taxes (FICA), and in most states, a State Income Tax. Some cities or counties even have their own local income taxes.

# The Philippines

## Premium Pay

The Philippines has a detailed system of premiums that reflects the country's unique holiday structure.

- Overtime on a regular workday: **+25%**
- Work on a designated rest day or special holiday: Rates are significantly higher, often **+30%** or more, to compensate for work on non-standard days.
- Night Shift Differential (10 PM to 6 AM): An additional **+10%** of the regular rate is added for late-night work.

## 13th Month Pay

This is a legally mandated and culturally significant benefit. All rank-and-file employees are entitled to receive an extra payment equivalent to one-twelfth of their annual basic salary, paid out no later than December 24th.

## Deductions

Statutory deductions are managed through three main agencies: the Social Security System (SSS), PhilHealth (for national health insurance), and the Pag-IBIG Fund (a housing development fund). Income tax is also withheld.



## Stop & Practice: Do You Speak the Language?

You have learned the vocabulary of payroll. Before calculating the paychecks, prove you understand the terms.

### Your Mission:

1. Click the link below for the **Terminology Quiz**.
2. **Goal:** Score 18/20.
3. **What you will test:**
  - Distinguishing "**Gross Pay**" from "**Net Pay**."
  - Identifying "**Statutory Deductions**" vs "**Employer Contributions**."
  - Understanding "**13th Month Pay**" (Philippines) vs "**Exempt/Non-Exempt**" (USA).

*(Once you pass the quiz, scroll down to the Karaoke Break to lock it in!)*

[Interactive Accounting Terminology Quiz](#)

## 🎵 Sing Along Break: "Gross to Net Groove"

Payroll rules can be complex. If you try to memorize them by reading, you might forget. If you sing them, you will remember the flow forever.

### Your Mission:

1. Click the link below.
2. Select **Track 1: "Gross to Net Groove."**
3. Sing along twice!

**Lyrics Preview:** *"Your paycheck starts with a number so grand... It's called Gross Pay... Oh, from Gross to Net, it's a simple subtraction... Leaves your Net Pay, the cash you get today!"*

[Accounting Sing Along](#)

## Chapter 5

# Section 5: Mini Case Studies: Meet the Team

The following case studies apply these rules to a global team.

2025 Edition



## Japan – Jenelie, the Graphic Designer

### Scenario

Jenelie is a dedicated graphic designer based in Tokyo. Her team was facing a tight deadline for a critical international brand launch, requiring her to work beyond her standard hours for several days. Her extra hours included both evening overtime and work that extended late into the night.

### Assumptions

#### Hourly Rate

JPY 2,000

#### Regular Hours for the Month

160

#### Total Overtime Hours

10

#### Late-Night Overtime Hours

4 (after 10 PM)

#### Monthly Commuting Allowance

JPY 10,000



# Calculation Breakdown

01

## Base Pay

First, we calculate her standard pay. This is for her regular, non-overtime work.

$$160 \text{ hours} \times \text{JPY } 2,000/\text{hour} = \text{JPY } 320,000$$

02

## Standard Overtime Premium

Japanese labor law requires at least a 25% premium for all overtime hours. This is the *extra* pay she earns for working longer than her scheduled day.

$$\text{JPY } 2,000 \times 0.25 \text{ (25\% premium)} \times 10 \text{ hours} = \text{JPY } 5,000$$

03

## Night Premium (Stacked)

For the hours worked between 10 PM and 5 AM, the law requires an *additional* 25% premium. This "stacks" on top of the standard overtime rate. This is not for all 10 OT hours, only the 4 that fell within the late-night window.

$$\text{JPY } 2,000 \times 0.25 \text{ (25\% premium)} \times 4 \text{ hours} = \text{JPY } 2,000$$

04

## Commuting Allowance

This is a common allowance in Japan to cover transportation costs to and from work. It is often non-taxable up to a certain legal limit.

$$\text{JPY } 10,000$$

05

## Total Gross Pay

Finally, we add all the components together to find her total earnings before any deductions.

$$\text{JPY } 320,000 \text{ (Base)} + \text{JPY } 5,000 \text{ (OT)} + \text{JPY } 2,000 \text{ (Night)} + \text{JPY } 10,000 \text{ (Allowance)} = \text{JPY } 337,000$$



## United States – Pat, the Content Evaluator

### Scenario

Pat is a non-exempt, remote employee based in a U.S. state with a state income tax. This week, she worked extra hours to help the team clear a backlog of content evaluations. As part of her benefits package, she contributes to a company-sponsored health insurance plan.

### Assumptions

#### Hourly Rate

\$20

#### Hours Worked This Week

45 (meaning 5 hours of overtime)

#### Weekly Health Insurance Contribution

\$100 (pre-tax)

# Calculation Breakdown

1

## Regular Pay

This is for her first 40 hours of work, paid at her standard rate.

$$40 \text{ hours} \times \$20/\text{hour} = \mathbf{\$800}$$

2

## Overtime Pay

U.S. federal law requires "time-and-a-half" for non-exempt employees. Her overtime hourly rate is  $\$20 \times 1.5 = \$30$ .

$$5 \text{ OT hours} \times \$30/\text{hour} = \mathbf{\$150}$$

3

## Gross Pay

This is her total earnings for the week before any deductions.

$$\$800 \text{ (Regular)} + \$150 \text{ (OT)} = \mathbf{\$950}$$

4

## Calculating Taxable Income

Pat's health insurance is a pre-tax deduction. This means the \$100 is subtracted from her gross pay *before* calculating her income tax. This is a key benefit that lowers her tax bill.

$$\$950 \text{ (Gross Pay)} - \$100 \text{ (Health Insurance)} = \mathbf{\$850 \text{ (Taxable Income)}}$$

*All her income-based taxes (Federal, State, and FICA) will be calculated on this lower \$850 figure, not her full \$950 gross pay.*



## Philippines – Cris, the Website Developer

### Scenario

Cris is a talented website developer in Manila. With a major website update scheduled to go live, she worked several late nights to ensure a smooth deployment.

### Assumptions

#### Hourly Rate

PHP 300

#### Regular Hours for the Month

160

#### Total Overtime Hours

8

#### Total Night Shift Hours

20



# Calculation Breakdown

## Base Pay

This is her standard monthly salary for regular hours.

$$160 \text{ hours} \times \text{PHP } 300/\text{hour} = \text{PHP } 48,000$$

## Night Shift Differential

For the 20 hours she worked within the night shift window (10 PM - 6 AM), she earns an additional 10% on her base rate.

$$\text{PHP } 300 \times 0.10 \text{ (10\% premium)} \times 20 \text{ hours} = \text{PHP } 600$$

## Overtime Premium

For her 8 extra hours, she earns a 25% premium.

$$\text{PHP } 300 \times 0.25 \text{ (25\% premium)} \times 8 \text{ hours} = \text{PHP } 600$$

## Total Gross Pay

We sum her base pay and all her premiums.

$$\text{PHP } 48,000 \text{ (Base)} + \text{PHP } 600 \text{ (OT)} + \text{PHP } 600 \text{ (Night)} = \text{PHP } 49,200$$

*Her mandatory 13th Month Pay is calculated based on her total basic salary earned throughout the year and will be paid in a separate transaction, typically in December.*



## Section 6: Basic Payroll Journal Entries

After calculating payroll, the accountant must formally record it in the company's books. This is done using a journal entry, which follows the principles of double-entry accounting (debits must equal credits).

### Scenario

A company's total gross pay for the month is \$10,000. From this, \$2,400 was withheld from employees for taxes and benefits. The company itself owes an additional \$1,800 for its share of payroll taxes. The final net pay disbursed to employees is \$7,600.

### The Journal Entry

#### Debits (What the Company Spent)

- **Salaries & Wages Expense: \$10,000** (This records the full gross pay earned by employees as a labor expense).
- **Payroll Tax Expense: \$1,800** (This records the company's own share of taxes as a separate expense).

#### Credits (What the Company Owes or Paid Out)

- **Withholdings Payable: \$2,400** (This is a liability. It represents the money withheld from employees that the company now owes to the government).
- **Cash: \$7,600** (This records the cash that has left the company's bank account to pay the employees their net pay).

❏ A key takeaway is that the total expense to the company (**\$11,800**) is greater than the gross pay of the employees (**\$10,000**). This is because the employer's contributions are an additional cost of employment above and beyond the wages paid.

## Final Challenge: Process the Payroll

You've seen the case studies. Now, can you do it without the guide? It's time to test if you can calculate premiums and deductions for a global team.

### Your Mission:

1. Click the link below for the **Math Quiz**.
2. **Goal:** 100% Accuracy.
3. **The Challenge:**
  - Calculate **Overtime Premiums** (1.5x in US, 1.25x in Japan/PH).
  - Handle **Japanese "Stacked" Premiums** (Overtime + Late Night).
  - Calculate **Taxable Income** after pre-tax deductions.

*(Once you pass the quiz, scroll down to the Karaoke Break to lock it in!)*

[Interactive Accounting Math Quiz](#)

## 🎵 Final Sing Along: "Gross Pay Breakdown"

You made it! You've mastered the payroll cycle. To celebrate—and to ensure you never forget the calculation order—we have one final track.

### Your Mission:

1. Click the link below.
2. Select **Track 2: "Gross Pay Breakdown."**
3. Sing it loud!

**Lyrics Preview:** *"First, you find your Gross, the number at the top... Take your Base Pay, and don't you ever stop... Oh, the math is easy, it's a simple deduction! Gross Pay minus all the subtractions!"*

[Accounting Sing Along](#)

## Section 7: Final Review & Takeaways



### Universal Flow, Local Rules

While the fundamental process of Time → Gross → Deductions → Net is the same everywhere, the specific rules that govern each step are intensely local. A successful payroll professional masters the details of their specific jurisdiction.



### Country-Specific Rules are Key

The nuances between countries can have a major financial impact.

- **Japan:** The concept of **stacked premiums** is critical. Failing to add premiums for overlapping conditions (like overtime and night work) is a common and costly compliance error.
- **United States:** The distinction between **Exempt and Non-Exempt** employees is the most important classification in U.S. labor law. Misclassifying an employee can lead to significant legal penalties. Furthermore, understanding the power of **pre-tax deductions** is key to understanding U.S. benefits.
- **Philippines:** The **13th Month Pay** is not a bonus; it is a legal requirement. Companies must budget for it accordingly.



### Accuracy is Paramount

Payroll is a field where there is little room for error. Mistakes in calculations, late tax payments, or poor record-keeping can lead to audits, financial penalties, and a loss of employee trust. Precision and adherence to deadlines are essential.

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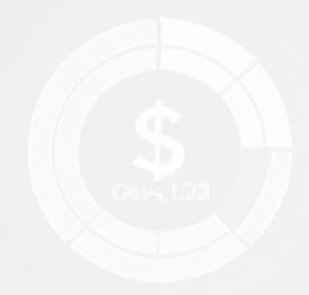
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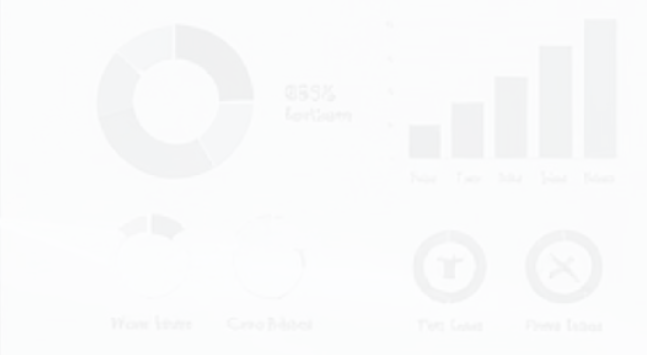
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## Calar chr Cahor Regulations



**Disclaimer:** This guide provides a foundational overview for 2025. Tax laws, social insurance rates, and labor regulations are subject to change. For professional application, always consult the most current official government resources and regulations for each specific country and locality.

## Section 8: Conclusion

You now have a foundational understanding of the global payroll process. While the core steps—from tracking time to calculating gross pay, deductions, and final net pay—are universal, this guide has shown that the specific rules are intensely local. Mastering the unique details, such as Japan's stacking premiums , the U.S. distinction between exempt and non-exempt employees , and the Philippines' mandatory 13th Month Pay, is essential. In payroll, accuracy is paramount; applying these concepts correctly is critical for legal compliance and maintaining employee trust.

# The Global Accountant's Cheat Sheet

**Accounting is a universal language, but the dialects change.**  
Use this quick reference guide to translate the core concepts across borders.

## The Core Payroll Vocabulary

Term	Definition	Real-World Context
<b>Gross Pay</b>	The total earnings of an employee <i>before</i> any taxes or deductions are taken out.	The "top-line" number used to calculate taxes.
<b>Net Pay</b>	The final amount an employee receives in their bank account.	Also known as "Take-Home Pay." (Gross - Deductions).
<b>Statutory Deductions</b>	Withholdings required by law (Taxes, Social Security).	The company acts as a collection agent for the government.

## The Core Payroll Vocabulary

Term	Definition	Real-World Context
<b>Employer Contributions</b>	Costs paid by the company <i>on top of</i> gross pay (e.g., matching Social Security).	A "hidden" cost of employment that does not come out of the employee's check.
<b>Premium Pay</b>	Extra compensation for non-standard hours (Overtime, Holidays, Night Shift).	Calculated as: Hourly Rate x Premium Rate x Hours.
<b>Withholding</b>	The process of deducting tax from a paycheck to pay the government.	A "pay-as-you-go" system to prevent large tax bills at year-end.

## Global Context - Payroll Rules

Concept	Japan	United States	Philippines
<b>Overtime / Premiums</b>	<b>Stacked Premiums:</b> Overtime (+25%) and Late Night (+25%) combine for +50%.	<b>Time-and-a-Half:</b> Standard overtime is 1.5x the regular rate for hours over 40.	<b>Complex Tier:</b> Overtime (+25%), Rest Days (+30%), Night Differential (+10%).
<b>Key Classifications</b>	<b>Regular vs. Late Night:</b> Strict rules for work between 10 PM and 5 AM.	<b>Exempt vs. Non-Exempt:</b> Only "Non-Exempt" employees are eligible for overtime pay.	<b>Rank-and-File:</b> Specific benefits (like 13th Month Pay) apply to this group.
<b>Unique Benefits</b>	<b>Commuting Allowance:</b> Often non-taxable reimbursement for travel to work.	<b>Pre-Tax Deductions:</b> Health insurance/401k reduce taxable income.	<b>13th Month Pay:</b> Mandatory extra month of salary paid by Dec 24.