

UNDERSTANDING YOUR W-2

W-2's are the annual record of an employee's earnings for tax purposes. Because W-2's are based upon taxable earnings, and certain earnings and deductions are taxed differently, it may be confusing to reconcile the W-2 to actual payroll earnings.

Here's information to help in understanding the differences.

Box 1 Income Tax Wages – This box represents the taxable income for Federal Income Tax purposes. If you had any deductions from your pay from the following list, it reduces the amount of wages reported in Box 1:

Pension Plans – examples are a 401k, 403b, or Simple IRA

Cafeteria Plans – examples are 125 Medical, Dental, or Vision, FSA's (flexible spending accounts), HSA's (health savings accounts) and Dependent Care.

Transit Plans and Parking

Box 3 Social Security Wages – This box represents the taxable income for Social Security purposes. Many of the same deductions that reduce Box 1 Wages also reduce Social Security Wages. The main difference is that Pension Plan deductions do not affect Social Security Wages. The following reduce the wages in Box 3:

Cafeteria Plans – examples are 125 Medical, Dental, or Vision, FSA's (flexible spending accounts), HSA's (health savings accounts) and Dependent Care.

Transit Plans and Parking

Box 5 Medicare Wages - This box represents the taxable income for Medicare purposes. It mirrors the same deductions that reduce Social Security Wages. The following reduce the wages in Box 5:

Cafeteria Plans – examples are 125 Medical, Dental, or Vision, FSA's (flexible spending accounts), HSA's (health savings accounts) and Dependent Care.

Transit Plans and Parking

Box 7 Social Security Tips – Tips are separated from Social Security Wages. Tips are not separated for Income Tax Wages or Medicare Wages.

Box 12 Amounts – Common items that appear in Box 12 include Pension Plan deductions, HSA contributions, and the taxable cost of Group Term Life Insurance. Note that Cafeteria Plan deductions are not displayed on the W-2, with the exception of Dependent Care. It is displayed in Box 10.

Also note that the list of differences above is not a complete list, as the intent of this document is to provide the most common differences between the wages.