



## Understanding the W2 - Job Aid



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## What Is a W2?

- › Form W2, the Wage and Tax Statement, is the document that shows:
  - › All of the taxable earnings an employee received during a calendar year
  - › Taxable earnings are the earnings that are subject to taxes after any pre-tax deductions have been deducted from an employee's gross pay
- › Copies of this document are sent to the employee, who is responsible for filing this document for tax purposes.



## What are Pre-Tax Deductions?

Section 125 of the IRS code allows employees and employers to take some specific deductions out of an employee's gross pay BEFORE taxes are calculated. These deductions are:

- › Medical
  - › Dental
  - › Vision
  - › Supplemental Life and Disability Insurance
  - › Flex Spending Deductions
  - › HSA Deductions
  - › **401k** (is a pre-tax deduction for federal and state tax withholding calculations only.)
- › **Federal Income Taxes** – All Section 125 deductions come out of an employee's check BEFORE taxes are calculated.
- › **Social Security and Medicare** – Medical, Dental, Vision, Supplemental Life and Disability Insurance, Flex Spending Deductions and HSA Deductions deductions may come out of an employee's check BEFORE taxes are calculated.

## Boxes A - E: Employee and Employer Contact Information

<b>Box A</b>	This box contains the employee's Social Security number.
<b>Box B</b>	This box contains the <b>Employer's Identification Number (EIN)</b> , also known as the Federal Employer Identification Number (FEIN) or the Federal Tax Identification Number. <ul style="list-style-type: none"><li>› The EIN is a unique nine-digit number assigned by the IRS.</li><li>› Employers with or without employees are assigned an EIN.</li><li>› The EIN is used to identify a business by the IRS for tax reporting purposes.</li></ul>
<b>Box C</b>	This box contains the <b>employer's</b> name, address, and zip code. <ul style="list-style-type: none"><li>› The address may be <b>different</b> from where an employee reports to work.</li></ul>
<b>Box D</b>	This box identifies an employee's unique W2 number in their employer's payroll system.
<b>Box E</b>	This box shows the <b>employee's</b> name, address, and zip code. <ul style="list-style-type: none"><li>› It is important to double check that the information is correct.</li></ul>

## Boxes 1 - 6: Employee Earnings and Federal Taxes

<b>Box 1</b>	<p>This is all of the employee's taxable earnings that may be subject to federal, state, or local taxes.</p> <ul style="list-style-type: none"> <li>› This includes wages, salaries, tips, bonuses, and commissions.</li> <li>› Taxable earnings are earnings subject to taxes AFTER all pre- tax deductions have been deducted.</li> <li>› Federal Income Taxes are calculated on the total earnings AFTER Medical, Dental, Vision, and 401K have been deducted out of an employee's check.</li> </ul>
<b>Box 2</b>	<p>This is the amount of money taken out of an employee's paycheck to pay the federal income tax.</p> <ul style="list-style-type: none"> <li>› The tax rate an employee owes is based on the tax bracket they are in.</li> </ul>
<b>Box 3</b>	<p>This is the earnings an employee made throughout the year <b>that was subject</b> to Social Security taxes.</p> <ul style="list-style-type: none"> <li>› The wage base is \$142,800 for 2021.</li> <li>› Any earnings beyond the wage base limit are not taxed for Social Security.</li> <li>› The earnings subject to social security are calculated AFTER Medical, Dental, Vision are deducted from an employee's paycheck.</li> <li>› Note: Although 401k is a pre tax deduction, it does not apply to Social security calculations</li> </ul>
<b>Box 4</b>	<p>The amount of money <b>withheld</b> from an employee's pay checks for Social Security taxes for the year.</p> <ul style="list-style-type: none"> <li>› This will be <b>6.2%</b> (the Social Security rate) of the amount in Box 3.</li> </ul>
<b>Box 5</b>	<p>This is the amount of an employee's earnings that is subject to Medicare taxes.</p> <ul style="list-style-type: none"> <li>› The Medicare wage base is unlimited.</li> <li>› Note: Although 401(k) is a pre-tax deduction, it does not apply to Medicare calculations.</li> </ul>
<b>Box 6</b>	<p>This amount will be 1.45% (the Medicare rate) of the amount in Box 5.</p> <ul style="list-style-type: none"> <li>› Note: If the employee earns above \$200,000, they pay <b>2.35%</b> on the wages above \$200,000.</li> <li>› There is <b>no wage</b> limit for Medicare.</li> </ul>

## Boxes 7 - 14: Additional Compensation

<b>Box 7</b>	<b>Boxes 7 - 8 deal with earnings from tips, such as in the restaurant industry.</b>	This is the amount of tips that an employee reported to their employer (from customers).
<b>Box 8</b>		<p>This is the amount of tips an employer attributed to an employee (from the company).</p> <ul style="list-style-type: none"> <li>› These tips are considered income.</li> </ul>
<b>Box 9</b>	This is an old field that is now defunct.	
<b>Box 10</b>	<p>If the employee is part of a dependent care assistance program (DCAP), this box reports the total amount of child or elder care expenses they were reimbursed.</p> <ul style="list-style-type: none"> <li>› If the amount the employee received is \$5,000 or higher, the value above \$5,000 will be reflected in boxes 1, 3, and 5 as earnings.</li> </ul>	

**Box 11**

This refers to the money received from an employer's non-qualified deferred compensation plan or non-qualified savings plan

- › Example: A pension plan
- › All of this amount is taxable and will already be reflected in Box 1.

**Box 12**

This box has been appropriately referred to as “the kitchen sink” of the W2.

- › This box is where the employer would report the amount that is taxed for various types of contributions, including health and retirement plans.
- › Each code has an associated letter:
  - A. Uncollected social security or RRTA (Railroad Retirement Tax Act) tax on tips
  - B. Uncollected Medicare tax on tips
  - C. Taxable cost of group-term life insurance (if over \$50,000)
  - D. Elective deferrals to a section 401(k) cash plan**
  - E. Elective deferrals under a section 403(b) salary reduction agreement
  - F. Elective deferrals under a section 408(K) (6) salary reduction SEP (Simplified Employee Pension)
  - G. Elective deferrals and employer contributions to a section 457(B) deferred compensation plan
  - H. Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan
  - I. There is no Box 12 code for the letter I
  - J. Sick pay that is nontaxable
  - K. 20% excise tax on excess golden parachute payments
  - L. Substantiated employee business expense reimbursements
  - M. Uncollected social security on taxable cost of group-term life insurance over \$50,000 (for former employees)
  - N. Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (for former employees)
  - O. There is no Box 12 code for the letter O
  - P. Moving expenses paid by an employer directly to an employee (not taxable)
  - Q. Nontaxable combat pay
  - R. Employer contributions to an Archer MSA (Medical Savings Account)
  - S. Employee salary reduction contributions under a section 408(p) SIMPLE (Savings Incentive Match Plan for Employees) plan
  - T. Adoption benefits
  - U. There is no Box 12 code for the letter U
  - V. Income from exercise of nonstatutory stock option(s)
  - W. Employer contributions to an employee's HSA (health savings account)
  - X. There is no Box 12 code for the letter X
  - Y. Deferrals under a section 409A nonqualified deferred compensation plan
  - Z. Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
  - AA. Designated Roth contributions under a section 401(k) plan
  - BB. Designated Roth contributions under a section 403(b) plan
  - CC. This code was only for 2010
  - DD. Cost of employer-sponsored health coverage**
  - EE. Designated Roth contributions under a governmental section 457(b) plan
  - FF. Permitted benefits under a qualified small employer health reimbursement plan
  - GG. Income from qualified equity grants under section 83(i)
  - HH. Aggregate deferrals under section 83(j) elections for the calendar year

<p><b>Box 13</b></p>	<p>This is subdivided into three separate boxes:</p> <ul style="list-style-type: none"> <li>a. The first box will be marked if the employee is a statutory employee. <ul style="list-style-type: none"> <li>› A statutory worker is “an independent contractor who is considered an employee for tax withholding purposes [and meets certain criteria].”</li> </ul> </li> <li>b. The second box notes if the employee participated in an employer’s retirement plan.</li> <li>c. The third box informs the IRS if the employee received any sick pay from their insurance policy.</li> </ul>
<p><b>Box 14</b></p>	<ul style="list-style-type: none"> <li>› This is the Other Earnings box</li> <li>› There are a few staples of tax reporting that might appear in this box, including: <ul style="list-style-type: none"> <li>a. Union dues</li> <li>b. Nontaxable income</li> <li>c. State disability insurance withholdings</li> <li>d. Deducted health insurance premiums</li> <li>e. The personal use of a company car</li> </ul> </li> </ul>

**Boxes 15 - 20:**  
State and Local Taxes

<p><b>Box 15</b></p>		<p>This includes the employer’s state and state identification number.</p> <ul style="list-style-type: none"> <li>› If an employee works for the same employer in multiple states, there may be additional lines here.</li> </ul>
<p><b>Box 16</b></p>	<p><b>Boxes 15-17 involve the earnings that are taxable at the state level.</b></p>	<p>This shows the amount of wages that will be taxed by the state.</p>
<p><b>Box 17</b></p>		<p>This shows the amount of state taxes that were withheld from an employee’s paycheck during the year.</p> <ul style="list-style-type: none"> <li>› Note: If the employee resides in a state without a reporting requirement these boxes will be blank. There are nine states that do not have state income tax. These states are: <ul style="list-style-type: none"> <li style="width: 33%;">› Alaska</li> <li style="width: 33%;">› New Hampshire</li> <li style="width: 33%;">› Texas</li> <li style="width: 33%;">› Florida</li> <li style="width: 33%;">› South Dakota</li> <li style="width: 33%;">› Washington</li> <li style="width: 33%;">› Nevada</li> <li style="width: 33%;">› Tennessee</li> <li style="width: 33%;">› Wyoming</li> </ul> </li> </ul>
<p><b>Box 18</b></p>	<p><b>Boxes 18-20 involve the earnings that are taxable at the local level.</b></p>	<p>This shows the wages subject to local taxes.</p>
<p><b>Box 19</b></p>		<p>This shows any money that has been withheld by a local tax entity.</p>
<p><b>Box 20</b></p>		<p>This gives the name of the municipality.</p> <ul style="list-style-type: none"> <li>› This could be a city, county, municipality, or additional state tax.</li> </ul>

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