

# Why Are W-2s and Final Pay Stubs Different?

## Why is the gross amount on my final pay stub for the year different than the amount on my W-2?

It is very common for gross taxable wages on an employee's final pay stub of the year to differ from the amount shown on their W-2. This can typically be attributed to the following three reasons:

### 1. Your Earnings Included Non-Taxable Income Items

Examples of non-taxable income items would include reimbursements for mileage or other types of non-taxable expenses you incurred that were paid back to you in a payroll run. As a result, the gross wages on an employee's pay stub will often differ from Boxes 1, 3, 5, and 16 wages on the W-2 because these non-taxable items will lower gross taxable wages.

#### Example

Example: Mary's gross wages are \$30,000, but over the course of the year she received \$2,000 towards a non-taxed car allowance. Mary's taxable W-2 wages will be \$28,000.  
(  $\$30,000 - \$2,000 = \$28,000$  )

### 2. You Participated in a Company Sponsored Retirement Plan

These types of retirement plans, like a 401(k), will reduce the taxable federal and state wages only, which are reported in Boxes 1 and 16, respectively.

#### Example

Sally's gross wages are \$30,000, but she contributed \$3,000 towards her 401(k) retirement for the year. Sally's federal and state W-2 wages will be \$27,000.  
(  $\$30,000 - \$3,000 = \$27,000$  )

### 3. Your Company Offers Health Insurance as a Pre-Tax Deduction

This is the most common reason for your pay stub earnings to be different from your W-2. If your company offers pre-tax health insurance and you have participated, then the taxable wages in Boxes 1, 3, 5, and 16 will be lower than the amount of the pre-tax health insurance deduction. Pre-tax deductions will lower the gross wages by the annual amount of the deduction.

#### Example

John's gross wages are \$30,000, but he contributed \$2,000 to a pre-tax health insurance deduction for the year. John's taxable W-2 wages will be \$28,000.  
(  $\$30,000 - \$2,000 = \$28,000$  )

# What Do all the Boxes on My W-2 Mean?

Now that you have a better understanding of why your final pay stub is different from your W-2, let's break down what all of those different boxes of information mean.

a Control number		OMB No. 1545-0008					
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld		
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips		6 Medicare tax withheld		
			7 Social security tips		8 Allocated tips		
d Control number			9		10 Dependent care benefits		
e Employee's first name and initial      Last name			11 Nonqualified plans		12a		
			13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
			14 Other		12c		
					12d		
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
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Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

## Box 1 - Wages, Tips, and Other Compensation

The gross taxable wage amount your employer paid you. This amount includes tips, bonuses, commissions, wages, and salaries.

## Box 2 - Federal Income Tax Withheld

The amount of federal income tax withheld from your wages reported in Box 1. Your W-4 was used to determine the tax withholding rate.

## Box 3 - Social Security Wages

The amount of earnings your employer paid you - not including tips - that's subject to Social Security tax.

## Box 4 - Social Security Tax Withheld

This amount represents 6.2 percent of the Social Security wages in Box 3 withheld during the year.

## Box 5 - Medicare Wages and Tips

The total amount of earnings your employer paid you that is subject to Medicare tax.

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## Box 6 - Medicare Tax Withheld

This amount represents 1.45 percent of the total Medicare wages in Box 5 during the year. Employees who earn more than \$200,000 (single) or \$250,000 (married filing jointly) are also subject to an additional 0.9 percent Medicare tax.

## Box 7 - Social Security Tips

This box shows any tip income you reported to your employer.

## Box 8 - Allocated Tips

This box shows tip income allocated to you by your employers. This amount isn't included in W-2 boxes 1, 3, 5, or 7.

## Box 10 - Dependent Care Benefits

The total amount paid into your dependent care flexible spending account for the year. Any amount over \$5,000 is also included in Box 1.

## Box 11 - Nonqualified Plans

This box shows the total amount distributed to you from your employer's nonqualified deferred compensation plan.

## Box 12 - Compensation and Benefits

This box indicates compensation or benefit by code. These codes include Elective deferrals for a 401(k) retirement plan, cost of employer-sponsored health coverage, and taxable cost of group-term life insurance.

## Box 13 - Retirement Plan

This box is checked when an employee is an active retirement plan participant.

## Box 14 - Other

This box can be used to report miscellaneous information, such as state disability insurance taxes withheld, uniform payments, or educational assistance payments.

## Box 16 - State Wages, Tips, etc.

The amount of your wages your employer paid you that is subject to state tax. The amount might differ from the amount shown in Box 1.

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