

APS receives many questions during tax season, and one that seems to come up quite often is why an employee's wage amounts on a final pay stub of the year are different than what is shown on the W-2. Whether you are looking to hone your knowledge or need a clear and concise document to give to employees, APS is providing this information to make this time of year a little less stressful.

Deciphering Your W-2

The diagram shows a 2015 W-2 Wage and Tax Statement form with several callout boxes explaining the contents of specific boxes:

- Box 1 - Wages, tips, and other compensation.** The gross taxable wage amount your employer paid you. This includes tips, bonuses, commissions, wages, and salaries.
- Box 3 - Social Security wages.** The amount of earnings your employer paid you -- not including tips -- that's subject to Social Security tax.
- Box 5 - Medicare wages and tips.** The total amount of earnings your employer paid you subject to Medicare tax.
- Box 7 - Social Security tips.** The amount of tips earned that is subject to Social Security Tax. The amounts in Box 3 and Box 7 should total the amount in Box 1.
- Box 16 - State wages, tips, etc.** The amount of your wages subject to state tax. The amount might differ from the amount shown in Box 1.

The form itself includes the following information:

- Form **W-2** Wage and Tax Statement **2015**
- Department of the Treasury—Internal Revenue Service
- For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.
- Cat. No. 10134D
- Do Not Cut, Fold, or Staple Forms on This Page

Box 1 - Wages, tips, and other compensation

The gross taxable wage amount your employer paid you. This includes: Tips, Bonuses, Commissions, Wages, and Salaries.

Box 3 - Social Security wages

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

Box 5 - Medicare wages and tips

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

Box 16 - State wages, tips, etc.

The amount of your wages subject to state tax. This amount might differ from the amount shown in box 1.

W-2 vs. Final Pay Sub

Understanding the difference between a last pay stub and W2 can be confusing if you are not familiar with payroll and taxes. Employees often receive their W2s and notice there is a difference between the earnings on the last paycheck stub and the reported earnings on their W2s. Typically this can be attributed to one of three different scenarios:

1. Your earnings included non-taxable income items. Examples of non-taxable income items would include reimbursements for mileage or another type of non-taxable expense you incurred that was paid back to you in a payroll run. As a result, the gross wages on an employee's pay stub will often differ from the Boxes 1, 3, 5, and 16 wages on the W2, because these non-taxable items will lower gross taxable wages.

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 W2 wages will be \$27,000. ($\$30,000 - \$2,000 = \$28,000$)

2. You participated in a company sponsored retirement plan. These types of plans, such as 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 over the course of the year she contributed \$3,000 towards her 401(k) retirement. Sally's federal and state W2 wages will be \$27,000. ($\$30,000 - \$3,000 = \$27,000$)

3. Your company offers health insurance that is a pre-tax deduction. This is the most common reason for your pay stub earnings to be different from your W2. 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 over the course of the year he contributed \$2,000 to a pre-tax health insurance deduction. John's taxable W2 wages will be \$28,000 ($\$30,000 - \$2,000 = \$28,000$)

The most important thing to remember is that an employee's gross wages may differ from their taxable wages, depending on the situation.