



Form W-2 vs. Pay Stub FAQs

Why are my Form W-2 and Final Pay Stub Different?

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Why is the gross amount on my final pay of the year different from 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. The difference is attributed to the following reasons:

1. Final Pay Stub Shows Gross Earnings Without Tax Withholdings or Deductions

Final pay stub shows the total or gross dollar amount earned before taxes and deductions and the amount the employee actually receives (net pay). Form W-2 shows taxable wages reported after pre-tax deductions. Pre-tax deductions include employer-provided health insurance plans, dental insurance, life insurance, disability insurance, and 401(k) contributions.

2. Paid Non-Taxable Income Earnings Included during the year.

Non-taxable items would show up on an employee’s pay stub, but not in the employee’s W-2, as they are not taxable to the employee.

Examples of non-taxable income would include reimbursements for mileage, allowances, 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 the pay stub will often differ from the Boxes 1, 3, 5, and 16 wages on the W-2 because these non-taxable items will lower gross taxable wages.

Example	Jane’s gross wages are \$30,000 but over the course of the year, she received \$1,000 towards a non-taxed employer-provided parking. Jane’s taxable W-2 wages will be \$29,000.00 ($\$30,000 - \$1,000 = \$29,000$). Janet’s final pay stub will show that she was paid \$30,000 for the year.
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3. Participation 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. The money invested in these programs is a pre-tax deduction

Example	Kathy's gross wages are \$30,000 but she contributed \$3,600 toward her 401(k) retirement for the year. Kathy's W-2 will only report the taxable portion of federal and state W-2 wages. In this example that would be \$26,400 ($\$30,000 - \$3,600 = \$26,400$). Kathy's final pay stub will show that she was paid \$30,000 for the year.
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4. Participation in a Company's Pre-Tax health insurance.

This is the most common reason for your pay stub earnings to be different from your W-2. If you participated in pre-tax health insurance, 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	Robert's gross wages are \$30,000, but he contributed \$3,000 to a pre-tax health insurance deduction for the year. Robert's taxable W-2 wages will be \$27,000. ($\$30,000 - \$3,000 = \$27,000$) John's final pay stub for the year will still show the employee earned \$30,000 in wages.
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Pre-tax deductions are indicated on the pay stub with an asterisk (*). Sample below:

Deductions	
FEDERAL TAX	286.55
STATE TAX	87.27
*RETIREMENT	657.52
*OPEB	305.62
SOC SEC	495.85
MEDICARE	115.96
* KAISER	2092.14
* F DLTA DNT	146.18
*VISION VSP	8.27
LIFE INSURANCE	0.00
ARAG GROUP	17.74
*VSP PREMIERE	27.24
METRO LIFE	42.31
*BENEFITAMT	-1845.00

Retirement	-657.52
OPEB	-305.62
Kaiser	-2,092.14
Delta Dental	-146.18
Vision	-8.27
VSP Premier	-27.24
Benefit Amount	1845.00
Reduces Taxable Amount:	-1,391.97

Note: If the amount has a negative sign after the dollar amount, this is an *increase* to the taxable gross.

5. Payroll year different from a calendar year.

For tax reporting purposes, wages are reported when they are paid, rather than when they are earned. For employees paid monthly, December earnings are paid on January 1 the following year and are therefore reported in the new tax year. Form W-2 is a summary of the taxable earnings received in a calendar year. Your W-2 does not reflect your final pay stub year salary.

For example for calendar year 2022, the payroll consists of pay issued from January 1, 2022 to December 31, 2022. The money reported on the Form W-2 is based on the IRS rule for constructive receipt, which refers to the calendar year in which the money is paid and could be received rather than when they are earned.

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 us breakdown 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 <input type="checkbox"/> Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay		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

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Box 1 - Wages, Tips, and Other Compensation

Box 1 shows the amount of gross taxable wages an employer paid. These wages include prizes, bonuses, fringe benefits, and salaries. This part of Form W-2 does not include amounts given to retirement plans or other payroll deductions. Because it subtracts other deductions, it is often less than the amounts shown in Boxes 2 and 3. Therefore, it's often the number employees care about most.

Box 2 - Federal Income Tax Withheld

The Federal income tax withheld from your pay during the previous calendar year. The EAR/SPAR you fill out each year determines this tax-withholding rate. Employees are encouraged to review their withholdings each year and submit a new Employee Action Request, STD. 686 or Student Payroll Action Request, STD 457, if needed.

Box 3 - Social Security Wage

The amount of earnings your employer paid you subject to Social Security tax. The number in this box does not consider pretax deduction items that reduce overall taxable income, which means Box 3 could be higher than the amount shown in Box 1. The only pre-tax deductions allowed are dependent care, flexible spending accounts, medical premiums, and OPEB. Retirement plan contributions do not reduce social security wages.

However, if you are high-income earners, this box could be less than the total amount in Box 1. That is because there is a maximum amount of wages Social Security can tax high-income earners. The maximum Social Security tax for high-income earners in 2022 is \$147,000.

Box 4 - Social Security Tax Withheld

This amount represents the total Social Security taxes withheld from your wages. Box 4 is calculated as 6.2 percent of the Social Security wages in Box 3. You should not have more Social Security withholding than the maximum wage base x 6.2%.

Box 5 - Medicare Wages and Tips

Medicare wages are the total amount of earnings you make that are subject to Medicare tax.

The only pre-tax deductions allowed are dependent care, flexible spending accounts, medical premiums, and OPEB. Retirement plan contributions do not reduce social security wages.

There is also not a cap on Medicare taxes, which means the number in Box 5, can be significantly larger than what is showing in Box 1 or Box 3. Retirement plan contributions do not reduce Medicare wages.

Box 6 - Medicare Tax Withheld

Medicare tax withheld represents the amount Medicare took from your wages to go to taxes. This amount represents the total Medicare taxes withheld from your wages. Box 6 is calculated as 1.45 percent of the Medicare wages in Box 5. The rate is usually 1.45% percent of the total Medicare wages in Box 5. However, employees who earn more than \$200,000 are also subject to an additional 0.9 percent Medicare tax.

Box 10 - Dependent Care Benefits

Box 10 lists the total amount paid into your dependent care flexible spending account for the year. Any amount over \$5,000 is included in Box 1 as well. Please refer to [CalHR Annual Limits on Dependent Care Deductions](#) for more information on state's plan limit.

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.

This box is used to indicate a compensation or benefit by code. These codes include:

- C — Taxable cost of group-term life insurance over \$50,000 (included in boxes 1, 3 (up to Social Security wages base), and box 5.
- D — Elective deferrals to a section 401(k) cash or deferred arrangement. It also includes deferrals under a SIMPLE retirement account that's part of a section 401(k) arrangement.
- E — Elective deferrals under a section 403(b) salary reduction agreement.
- G — Elective deferrals and employer contributions (including non-elective deferrals) to a section 457(b) deferred compensation plan.
- L — Substantiated employee business expense reimbursements (nontaxable).

- P — Excludable moving expense reimbursements paid directly to a member of the U.S. Armed Forces (not included in Boxes 1, 3, or 5).
- AA — Designated Roth contributions under a section 401(k) plan.
- BB — Designated Roth contributions under a section 403(b) plan.
- DD — Cost of employer-sponsored health coverage. The amount reported with Code DD is not taxable.
- EE — Designated Roth contributions under a governmental Section 457(b) plan. This amount does not apply to contributions under a tax-exempt organization Section 457(b) plan.

Box 13 - Retirement Plan

This box is checked when an employee is an active retirement plan participant. An “X” indicates employees are members of either the Public Employees’, State Teachers’, Judges’ or Legislators’ Retirement System. Employees in the Part-time/Seasonal/Temporary retirement plan will not have an “X” indicated.

Box 14 – Other

This box can be used to report miscellaneous information, such as State Disability Insurance (CA SDI) taxes withheld, fringe benefits, or educational assistance payments.

Box 15 – Employer’s State ID Number

This box is where you list your employer’s state and tax identification number. If you do not have CA, IL or NY reporting, Box 15, 16, and 17 will be blank. However, more than one box will be filled if you have multiple withholdings in various states.

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.

Box 17 - State Income Tax

If wages were reported in Box 16, then Box 17 will show the amount of state taxes withheld from your income.

If you reside in a state other than CA, IL or NY, your W-2 will show blank in Box 15, but Box 16 will be complete with the taxable wages that you will need to report to your residing state.