

5 things to tell employees about their W-2s

Employees don't understand their W-2s. They never will. So, to avoid the annual onslaught of questions regarding their forms, a good idea is to prepare FAQs for them. You can stuff this in with their next paycheck.

FAQ #1: Didn't I make more money than what you show in Box 1?

Yes, you probably did. But there's a difference between your gross pay and your net pay that's subject to tax withholding. It depends on how many voluntary, pretax deductions, like health insurance, dependent care, FSAs, 401(k) plan, etc., we took from your gross pay last year.

FAQ #2: Why are the wages listed in Boxes 1, 3 and 5 different?

Box 1 lists your taxable wages, after subtracting your pretax deductions for your 401(k) plan, health insurance, and, if you signed up for it, your FSA and dependent care contributions.

Box 3 lists your wages that are subject to Social Security taxes. This amount is capped at \$118,500 for 2015.

Box 5 lists your Medicare wages. It differs from the amount listed in Box 3, because all of your wages are subject to Medicare taxes. This amount also differs from the amount you see in Box 1, because your 401(k) contributions are subject to Medicare taxes.

FAQ #3: Why are the wages listed in Boxes 1 and 16 different?

Box 1 lists your wages that are subject to federal income tax withholding. Box 16 shows your state taxable wages. Due to differences between state and federal law, some of the fringe benefits we provided that aren't taxable at the federal level are taxable for state purposes.

FAQ #4: What's the deal with the codes in Box 12?

The IRS requires that we break out the reporting for certain information, such as the amount of your pretax deductions for 401(k) plans or whether you received sick pay. Since there are so many reporting requirements, the IRS devised indicator codes for this purpose.

FAQ #5: Why are you reporting my health benefits in Box 12?

The IRS requires that we report the value of your health benefits on your W-2. This is strictly for informational purposes. Your health benefits remain a tax-free benefit we provide to you.