

An end-of-year memo from Payroll

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For Payroll, next month will put meaning to the phrase “stupid busy.” So, to avoid the annual onslaught of questions from employees about their W-2s, you should prepare a memo for them and stuff it in with their next pay statement:

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To: Employees

From: , Payroll Manager

Re: Your W-2s

Understanding the meaning of wages, tips and other compensation

The amount reported in **Box 1** is the amount of your net pay that is subject to federal income tax withholding. This isn't the same as your gross pay. Your net pay reflects reductions in your gross pay due to your voluntary, pretax deductions, such as health insurance, dependent care, FSAs, 401(k) plan, etc., we took during 2016.

Why the amounts listed in Boxes 1, 3 and 5 may be different

Box 1 lists your net, 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 2016.

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.

Why the wages listed in Boxes 1 and 16 may be different

Box 16 shows your state taxable wages, which, due to different state tax provisions, may be different from your Box 1 amount.

The codes in Box 12

The IRS requires that we break out the reporting of certain information, such as the amount of your pretax deductions for 401(k) plans or whether you received sick pay. To simplify matters, the IRS devised specific codes for this purpose.

Your health benefits are not taxable, even though they're reported 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.

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This is the last "Payroll Today" blog post of 2016. Have a happy holiday season and New Year and thanks for your support.