HOW IS YOUR PAYCHECK COMPUTED FROM GROSS PAY TO NET PAY

The employee submits time, either through a paper timesheet or the electronic web portal, which reflects all work performed in a pay period. Based on those time submissions, along with other information in the Payroll system, a paycheck is automatically calculated for a gross amount due to the employee.

Once the total gross pay is calculated, any pre-tax deductions (health/vision insurance, 401K, etc.) are subtracted. Applicable Federal Taxes and State/Local Taxes are calculated based on the current W-4 submitted by the employee and are subtracted from the adjusted gross. Then NET deductions are subtracted resulting in the final amount the employee will receive.

Gross Pay

less: Pre-tax Deductions equal: Taxable Wages
less: Federal tax
less: Social Security/Medicare tax
less: State/local tax
less: garnishments/other items
equal: Net Pay (either a paper check or the amount of the electronic direct deposit)

RECONCILING YOUR PAY Stub TO YOUR W-2

Employees often ask what amounts are reported on a W-2 and why the amounts on their pay stubs are different from amounts on their W-2.

One reason is the definition of a payroll year being different from a calendar year. For example, for calendar year 2016, the payroll year consists of pay periods worked from December 13, 2015 to December 10, 2016 for employees paid on a bi-weekly schedule which are paid during the calendar year of January 1, 2016 to December 31, 2016. The amount reported on a W-2 is based on the IRS rule, Constructive Receipt, which refers to the calendar year in which the money is paid and could be received. Even if the employee doesn’t receive it until after the end of the year, it was mailed and the employee could have received it in 2016; therefore it is reported as 2016 wages.

Another reason is due to the difference between total gross earned and taxable compensation. Total gross is everything an employee has earned in a year, while the amount reported on a W-2 is taxable compensation which has been reduced by non-taxable amounts such as employee health insurance and 401K.

W-2 WAGE AND TAX STATEMENT

Box 1 - Wages, Tips, Other Compensation. This amount includes total wages and other compensation paid during the calendar year. However, deductions for insurance plans and contributions to a retirement plan will reduce this amount. This box reports your federal taxable wages.

Box 2 - Federal income tax withheld. This is the amount of federal income tax withheld from your wages reported in Box 1. Your W-4 on file was used to determine the tax withholding rate.
Box 3 - Social security wages. This box may differ from Box 1 since retirement plan contributions do not reduce wages reported in Box 3.

Box 4 - Social security tax withheld. This amount represents 6.2% of the Social security wages paid during the year.

Box 5 - Medicare wages. This box may differ from Box 1 since retirement plan contributions do not reduce wages reported in Box 3.

Box 6 - Medicare tax withheld. This amount represents 1.45% of the Medicare wages paid during the year.

Box 10 - Dependent care contributions. This amount is the total of your Dependent Care Flexible Spending Account election.

Box 12 - Reports specific amounts according to a predetermined code. The IRS identifying code appears in the box to the left of the amount being reported. The codes are:

   D – This is total amount deferred to the 401K plan.

   DD – Cost of employer provided health insurance-both employee and employer contributions (informational only)

Box 13 - Informational.

Box 14 - Information for the employee only.

Boxes 16 through 20 - For state and local tax withholding and reporting.