

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.



PAY STUB/W-2 RECONCILIATION GUIDE

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.