

Top 10 Payroll W-2 Questions

Every Manager Should Be Able to Answer

1. Why do I have to pay income taxes, and is it optional?

Paying income taxes is not optional; the IRS requires the employer to tax wages that have been paid according to the W-4.

2. How do I reduce my tax liability for the following year?

Because we are not tax professionals, we recommend working with a tax professional and utilizing the IRS estimator [Link](#).

3. Why does box 1 (Federal Income Tax) not match boxes 3 & 5 (Social Security & Medicare)?

Because traditional 401(k) contributions reduce your federal taxable income (Box 1) but not your Social Security or Medicare wages (Boxes 3 and 5).

4. Why does box 1 not match the gross wages of my last paycheck?

If the employee has pre-tax deductions, like 401k or healthcare, it reduces the amount we are required to report.

5. What is box 12?

Box 12 is used for IRS-designated items that are required to be on the W-2.

6. How do I interpret the letter codes in box 12?

Here are a few of the most common letter codes:
D - Pre-tax 401k; W - HSA; AA - Roth 401k.

7. What is box 14?

Box 14 is used for employer-specific items, such as cell phone reimbursement or commissions.

8. I worked the last two weeks of 2024; why is that not on my W-2?

The IRS only considers "constructive receipt," which is when the employee was paid or the funds were made available, not the specific period worked.

9. What happens if the employee moved and we don't have the correct state listed on their W-2?

A corrected W-2c will need to be created and filed with the original W-2. It could take 6-8 weeks to be completed.

10. Why is there a higher tax percentage for my bonus?

Supplemental income, such as a bonus, is taxed by the federal government at 22% and is also subject to state-specific taxes.