Understanding W-2 Taxable Wages Compared to Earnings Statements

The final earnings statement for the 12/01-12/15 pay period shows gross year-to-date (YTD) earnings, while Form W-2 reports taxable wages based on IRS rules.

Some deductions are taken out before taxes, so the amounts reported in Boxes 1, 3, and 5 may be different from the YTD earnings totals on the final earnings statement.

Box 1 — Federal Taxable Wages

Formula
Gross Wages
+ Allowances
+ Noncash Gross
− Applicable Withholding Pre-Tax Deductions
= Box 1 Federal Taxable Wages

Common Pre-tax Deductions

- Pre-tax health insurance
- Dependent care pre-tax
- Deferred Comp
- Retirement contributions
- Medical FSA pre-tax
- HSA employee contributions
- Pre-Tax parking deductions
- Transit deductions
- VEBA contributions
- Sick leave buyout due to death or disability
- Wages paid after death

Note: Box 1 is often lower than YTD gross earnings because pre-tax benefits are deducted first.

Box 3 — Social Security Wages

Formula
Gross Wages
+ Allowances
+ Noncash Gross
− Applicable Social Security Pre-Tax Deductions
= Box 3 Social Security Wages

Common Pre-tax Deductions

- Pre-tax health insurance
- Medical FSA pre-tax
- HSA employee contributions
- Dependent care pre-tax
- Pre-tax parking deductions
- VEBA contributions
- Sick leave buyout due to death or disability
- Wages paid after death in a future year

Note: Social Security wages are limited to the annual federal wage maximum. For 2026, the maximum wage base is $184,500.

Box 5 — Medicare Wages

Formula

Gross Wages
+ Allowances
+ Noncash Gross
− Applicable Medicare Pre-Tax Deductions
= Box 5 Medicare Wages

Common Pre-tax Deductions

- Pre-tax health insurance
- Medical FSA pre-tax deductions
- HSA employee contributions
- Dependent care pre-tax deductions
- Pre-tax parking deductions
- VEBA contributions
- Sick leave buyout due to death or disability
- Wages paid after death in a future year

Note: Unlike Social Security wages, Medicare wages do not have a yearly limit. Employees earning more than $200,000 have an Additional Medicare Tax of 0.9% withheld from their wages.