W-2 FORM | TAX FORMULA

What is a W-2?
IRS Form W-2, the “Wage and Tax Statement,” reports an employee’s income from the prior year, how much tax the employer withheld and other information. Employers send employees a Form W-2 in January (and a copy to the IRS). Employees use Form W-2 to prepare their tax returns.

- Every employer that paid you at least $600 during the year has to provide you with a W-2 and send a copy to the IRS and the state. Tip income may be on your W-2.
- Don’t confuse a W-2 with a W-4 — that’s the form you use to tell your employer how much tax to withhold from your paycheck every pay period (learn how withholding taxes work).
- Freelancers or independent contract workers get 1099s from their clients, not W-2s.

How do I get my W-2?
If you're looking for a copy of an old W-2 that you attached to a prior tax return and you can't get a copy from the employer that originally issued it, you can request an IRS tax transcript online or use IRS Form 4506 to request a copy of your tax return.

When should I receive my W-2?
The IRS requires employers to furnish W-2s to the government and employees by Jan. 31 or face penalties. The IRS generally defines furnish as “get it in the mail,” which means you should have yours in hand by the first week of February. Employers can also send employees their W-2s electronically, but it’s not required. That means you may be able to get yours online.

Even if you quit your job months ago, your ex-employer can still wait until Jan. 31 to send you a W-2 — unless you ask for it earlier, in which case the employer has 30 days to provide it.

You need your W-2 to do your taxes

Your Form W-2 tells you how much you earned from your employer in the past year and how much withholding tax you've already paid on those earnings. For many people, the information on the W-2 determines whether they're getting a refund or writing a check at tax time. When you do your taxes, you'll need it in order to fill in a lot of the information.

How a W-2 works

You use the W-2 to file your tax return. Form W-2 shows more than just what you were paid. It also details how much you contributed to your retirement plan during the year, how much your employer paid for your health insurance, or even what you received in dependent care benefits. All of that data affects your tax picture — your retirement contributions might not be taxable, for example.

- Box 1: Details how much you were paid in wages, tips and other compensation.
- Box 2: Shows how much federal income tax was withheld from your pay.
- Box 3: Shows much of your pay in Box 1 was subject to Social Security tax.
- Box 4: Shows how much Social Security tax was withheld from your pay.
- Box 5: Shows how much of your pay in Box 1 was subject to Medicare tax.
- Box 6: Shows how much Medicare tax was withheld from your pay.
- Box 7: Shows how much of the tip income you reported to your employer (those tips are included in Box 1) was subject to Social Security tax.

- Box 8: Shows the amount of other tips your employer allocated to you. This pay isn't included in Box 1. (Learn how to report tips on your income tax return.)

- Box 10: Shows the amount of dependent care benefits your employer paid to you or incurred on your behalf. Generally, anything over $5,000 ($2,500 if you're married by filing separately) is also included in box 1.

- Box 11: Generally, this box shows how much money was distributed to you during the year from your employer's deferred compensation plan.

- Box 12: Here, there are four areas in which the employer can provide more detail about some or all of the pay reported in Box 1. For example, if you've contributed to your company's 401(k) plan, the amount of your contributions might show up in Box 12 with the code letter "D." There are many codes, which you can see in the IRS's W-2 instructions.

- Box 13: This box indicates whether your earnings are subject to Social Security and Medicare taxes but aren't subject to federal income tax withholding, whether your participated in certain types of retirement plans, or whether you got certain kinds of sick pay.

- Boxes 16-19: Shows how much of your pay is subject to state income tax, how much state income tax was withheld from your pay, how much income was subject to local taxes, and how much local tax was withheld from your pay.

W-2 FORM	TAX FORMULA

Distilled to its simplest form, the Individual Federal Income Tax formula can be seen as:

	Gross Income
–	Deductions for Adjusted Gross Income
=	Adjusted Gross Income (AGI)
–	Standard Deduction OR Itemized Deductions
=	Taxable Income
x	Tax Rate
=	Gross Tax Liability
–	Tax Credits and Prepayments

=	Tax Due OR Tax Refund

Gross income – Generally entails ALL income that you earn. Wages, interest income, cancelled debts, gig work, and so many other forms of income get included in gross income.
Deductions for AGI – Also known as “above-the-line deductions,” these are certain deductions such as contributions to retirement plans, alimony, and student loan interest. These items lower the gross income and the total is called Adjusted Gross Income.
Adjusted Gross Income (AGI) – This number is significant because it can determine if you qualify for certain deductions and tax credits.
Itemized Deductions – Also known as “below-the-line deductions,” these are certain deductions such as medical expenses, charitable donations, and state & local taxes paid. These items lower AGI and what calculates taxable income.
Standard Deduction – A deduction of a set number subtracted from AGI if itemized deductions are less than the standard deduction. See our article for more details on standard vs itemized. Currently, the standard deduction is $12,400 (2020) or $12,550 (2021) for single filers.
Taxable Income – The amount after subtracting deductions. This number determines the applicable tax bracket that you will fall under. Check out Form 1040 Instruction for current brackets. Once the rate is applied, you get your gross tax liability, or more simply, what you owe to the IRS.
Tax Credits & Prepayments – These items directly lower your gross tax liability. Taxes your employer withheld and qualified tax credits fall in this category.
Once you’ve calculated your gross tax liability against your credits and prepayments, you’ll be able to see how much you still owe, or if you are owed a refund.