

MONEY 101 EDUCATION

1.12 – Can you calculate Maria’s Gross Earnings by looking at her W-2?



When Maria received her W-2 she was very confused.

- In Box 1, her earnings were listed as \$ 35,616.65.
- In Box 3, her earnings were listed as \$ 37,587.00.

Neither of those numbers tied in with her last pay stub, which showed her gross earnings as a higher number.

What was happening?

22222		a Employee's social security number 123-45-6789		OMB No. 1545-0008		
b Employer identification number (EIN) 13-5526565		1 Wages, tips, other compensation \$35,616.65		2 Federal income tax withheld \$ 3,561.67		
c Employer's name, address, and ZIP code Divine Publications USA 1745 Broadway New York, NY 10019 Phone: 212-582-8888		3 Social security wages \$37,587.00		4 Social security tax withheld \$ 2,330.39		
		5 Medicare wages and tips \$37,587.00		6 Medicare tax withheld \$ 545.01		
		7 Social security tips		8 Allocated tips		
d Control number		9		10 Dependent care benefits		
e Employee's first name and initial Last name Suff. MARIA CONSUELA 1234 Eastern Parkway Brooklyn, NY 11234 United States Phone: 917-6000-9000		11 Nonqualified plans		12a D \$ 1,970.35		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b DD \$ 6,240.00		
		14 Other SDI (State Disability Insurance) = \$ 31.20 FML (Family Medical Leave) = \$54.49		12c		
		12d				
f Employee's address and ZIP code						
15 State	Employer's state ID number NY 13-5526565	16 State wages, tips, etc. \$35,615.65	17 State income tax \$ 2,137.00	18 Local wages, tips, etc. \$35,615.65	19 Local income tax \$ 35,615.65	20 Locality name NYC

Form **W-2 Wage and Tax Statement** **2023** Department of the Treasury—Internal Revenue Service
Copy 1—For State, City, or Local Tax Department

#1 – A METHOD TO EASILY CALCULATE HER GROSS EARNINGS

As Maria knows she contributed 5% of her gross earnings to the company’s traditional 401K retirement plan throughout the year, the easiest way for her to calculate her gross earnings is to divide the amount she contributed to her 401K by 5%.

On the W-2 in Box 12a, labeled code D, is listed as \$ 1,970.35. Code D stands for the amount Maria contributed to her traditional 401K contribution.

So, \$ 1,970.35 divided by .05 = \$39,407

NOTE - If Maria had not contributed to her traditional 401K at the same rate throughout the year, it would have been impossible to calculate her Gross Income by just looking at her W-2.

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#2 – HOW WAS BOX 1 WAGES (aka FEDERAL TAXABLE INCOME) CALCULATED?

Maria remembered she got a tax break for her contributions to her traditional 401K and her payment of a portion of the health insurance premium. She calculated her share of the health insurance premium using this method.

Gross Income	\$ 39,407.00
LESS Amount Maria contributed to her 401K plan	\$ 1,970.35
subtotal	\$ 37,436.65
LESS Box 1 Taxable Income	\$ 35,606.65
AMOUNT paid for health insurance premium	\$ 1,830.00

Or another way of looking at the numbers =

Box 1 Taxable Income	\$ 35,606.65
ADD Amount Maria contributed to her 401K plan	\$ 1,970.35
ADD Amount Maria contributed for health insurance premium	\$ 1,830.00
GROSS INCOME	\$ 39,407.00

#3 – HOW WAS BOX 5 MEDICARE WAGES (aka MEDICARE TAXABLE INCOME) CALCULATED?

Maria understands that Medicare, when calculating Box 5 taxable wages, does not allow a deduction for traditional 401K plans but does allow a deduction for the amount paid for health insurance premiums.

Thus, Box 5 Medicare wages were calculated as follows:

Gross Income	\$ 39,407.00
LESS Amount Maria contributed to her health insurance premium	\$ 1,830.00
Box 5 – Medicare wages	\$ 37,587.00

#4 HOW MUCH DID HER EMPLOYER PAY TOWARDS MARIA’S HEALTH PLAN?

Maria noted in box 12b a code DD. She looked it up and learned that was the total amount paid for the health insurance plan. It included BOTH the amount she paid, and the amount paid by her employer. So to calculate the cost to her employer she did the math

Box 12b – CODE DD – Total cost of health insurance plan	\$ 6,240.00
LESS Amount Maria contributed to her health insurance premium	\$ 1,830.00
Amount of health insurance plan premium paid by employer	\$ 4,410.00

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SUMMARY

It is essential to know your GROSS INCOME and understand all the deductions. It is also important to know which deductions help lower your taxable income.