

## How to Read a W-2

In a divorce, it's vital that you have a good understanding of your income and your spouse's income, and part of that is knowing how to read Form W-2. If you earned any money as an employee, your employer is required to provide you with a copy of Form W-2. Form W-2 reports the entire amount earnings you received in a calendar year and includes wages, salaries, and tips. A W-2 also reports the amount of tax withholdings you've had throughout the year. Form W-2 is to be distributed by employers no later than January 31 of each year for all reported wages, salaries, and tips earned in the previous calendar year. If January 31 falls on a weekend, employers have until the next business day to do so.

Don't worry, you don't need to become a CPA or tax expert in order to protect yourself in a divorce. It is, however, a good idea to have a basic knowledge of what to look for when reading a Form W-2. Although W-2s come in a variety of sizes, shapes, and formats, every W-2 contains the exact same information. Here's the most important information you need to know for purposes of your divorce when reviewing Form W-2:

### The Basics

**Box 1: Wages, tips, and other compensation.** This amount reflects the total *taxable* wages or salary for federal income tax purposes. Often times, people confuse this amount with *gross* income for purposes of calculating support, *which is a mistake!* If the employee had pre-tax benefits, such as health insurance or voluntary contributions to a retirement plan, this number is actually lower than the amount of gross salary. Especially in cases where you are reading your spouse's W-2, it is imperative that you know what his or her actual gross income is, as this number impacts both child and spousal support.

**Box 3: Social Security wages.** You might notice that this amount is *higher* than Box 1. If that is the case, that is because that amount is calculated before any payroll deductions are taken. Assuming the total gross income received was less than \$113,700 (as of 2013), this is an accurate number to use for purposes of calculating gross income for purposes of child and spousal support. If the amount is *lower* than Box 1, it's because the employee is a high earner whose income exceeds the maximum Social Security wage base.

**Box 5: Medicare wages.** This box often contains the highest amount on the W-2. Medicare taxes generally do not include any pretax deductions and does include most taxable benefits. Additionally, there is no cap for Medicare taxes, unlike Social Security wages. Often times, this box is a good "shortcut" for quickly estimating someone's gross base income.

**Box 12: Deferred Compensation and Other Compensation.** There are a variety of compensation and benefits that are reported in Box 12, and each type of compensation has its own lettered code. For most people, codes D, E, and G are most common, as they relate to voluntary

non-taxable salary deferrals to retirement accounts such as a 401(k), 403(b), or 457(b). This amount should be added to the amount in Box 1 to help calculate total gross income.

## **Last Words of Advice . . .**

Remember that a W-2 is only part of someone's income. In order to truly understand a person's full financial picture, it's important to review year-end paycheck stubs and the tax returns with all applicable attachments in addition to a W-2. While your attorney's job is to calculate your income and your spouse's income, it is always best for you to understand at least the basics of how your attorney has come up with these figures.

For more information on how income impacts your divorce, please [contact us](#).