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MEMORANDUM

TO: All Departments, Agencies and Boards
ATTENTION: Fiscal Officers, Payroll Officers
and Personnel Officers

FROM: Robert L. Childree
State Comptroller

SUBJECT: 2004 Wage and Tax Statement, Form W-2

Attached is an Employee's Earnings Report for 2004 that reflects the information provided on the Wage and Tax Statement, Form W-2, for your departmental employees. This report should be retained for future reference and wage verification purposes. **The Comptroller's Office will no longer furnish duplicate W-2's for wage verification purposes.**

MILITARY DIFFERENTIAL PAY WILL NOT BE INCLUDED ON THE FORM W-2; HOWEVER, EMPLOYEES WILL RECEIVE A FORM 1099-M REFLECTING THE AMOUNT OF MILITARY DIFFERENTIAL PAY RECEIVED.

The following identifies and explains the information reported on the Form W-2 in compliance with IRS regulations. The heading that appears on the W-2 is denoted in parenthesis. **All calculations have been made for boxes 1-12. Box 14 is for the employee's or tax preparer's information only.**

- Wages paid during the calendar year
- Per Diem (**Per diem**) includes the non-overnight per diem allowances paid with object codes of 0300 09 and 0300 40
- Life Insurance Premium (**Code C, Box 12**) includes the value of premiums on the cost of group-term life insurance provided by Retirement Systems to the extent it exceeds \$50,000 coverage
- Personal use of employer provided vehicles (**Car usage, Box 14**) includes the amount assessed and reported by the agencies
- Tips reflects the amount of tips received and reported by Conservation employees working in the restaurant facilities

- Deferred Retirement Contributions (**Def Ret 414H, Box 14**) is the amount deducted from employees' wages for retirement. This amount is deferred for Federal taxable purposes.
- Deferred Compensation (**Code G, Box 12**) is the amount deducted for deferred compensation plans with RSA or PEBSCO. This amount is deferred for Federal and State taxable purposes.
- Exempt Health Insurance (**HIth Ins Exempt**) is the amount deducted from employees' wages for health coverage under the Flexible Benefits Plan. This amount is not subject to Federal, State and FICA taxes.
- Dependent Care (**Box 10**) is the total amount of dependent care benefits that was deducted from employees' wages for their day care premiums paid under the Flexible Benefits Plan for the State of Alabama. This amount is deferred for Federal, State and FICA taxable purposes.
- Health Care (**Health Care, Box 14**) is the amount deducted from employees' wages under the Flexible Benefits Plan for the State of Alabama to be used as reimbursement for medical expenses not paid by the State's insurance program. This amount is deferred for Federal, State and FICA taxable purposes.

To assist you in responding to questions from employees, the following recaps the information and, if applicable, the calculation of the boxes on the Form W-2:

Box 1 - "Wages, tips and other compensation" is the total wages subject to federal tax and should be used on the employee's federal tax return. This box is calculated as follows:

- + Year to Date Gross Wages
- Deferred Retirement Contributions
- Deferred Compensation Contributions
- Exempt Health Insurance Premiums
- Exempt Child Care payments (DPCRE)
- Exempt Health Care payments (HLCRE)
- BASBAQ (Military allowance for quarters)
- Military Differential Pay
- + Non-overnight Per Diem
- + Life Insurance Premium
- + Personal Use of State Provided Vehicles
- + Tips
- = **Federal Taxable Wages**

Box 2 - "Federal income tax withheld" is the total amount withheld from employees' wages for federal income tax.

Box 3 - "Social security wages" is the amount of wages subject to social security tax and should not exceed \$87,900. This box is calculated as follows:

$$\begin{array}{rcl} + & \text{Year to Date Gross Wages} & \\ - & \text{Exempt Health Insurance Premiums} & \\ - & \text{Exempt Child Care payments (DPCRE)} & \\ - & \text{Exempt Health Care payments (HLCRE)} & \\ - & \text{Active Duty Military Pay} & \\ - & \text{BASBAQ (Military allowance for quarters)} & \\ - & \text{Military Differential Pay} & \\ + & \text{Life Insurance Premium} & \\ + & \text{Personal Use of State Provided Vehicles} & \\ = & \text{Social Security Wages} & \end{array}$$

Box 4 - "Social security tax withheld" is the amount withheld from employees' wages for social security tax. It is calculated by multiplying the amounts in Boxes 3 and 7 by .0620.

Box 5 - "Medicare wages and tips" is the amount of wages and reported tips that are subject to Medicare tax. This box is calculated as follows:

$$\begin{array}{rcl} + & \text{Year to Date Gross Wages} & \\ - & \text{Exempt Health Insurance Premiums} & \\ - & \text{Exempt Child Care payments (DPCRE)} & \\ - & \text{Exempt Health Care payments (HLCRE)} & \\ - & \text{Active Duty Military Pay} & \\ - & \text{BASBAQ (Military allowance for quarters)} & \\ - & \text{Military Differential Pay} & \\ + & \text{Life Insurance Premium} & \\ + & \text{Personal Use of State Provided Vehicles} & \\ + & \text{Tips} & \\ = & \text{Medicare Wages and Tips} & \end{array}$$

Box 6 - "Medicare tax withheld" is the amount of tax deducted from employees' wages for Medicare tax. It is calculated by multiplying the amount in Box 5 by .0145.

Box 7 - "Social security tips" is the amount of tips reported by Department of Conservation employees who work in restaurant facilities.

Box 9 - "Advance EIC Payment" is the total amount paid to eligible employees for advance earned income credit.

Box 10- "Dependent Care Benefits" is the amount of dependent care benefits that was deducted from employees' wages for their day care premiums paid under the Flexible Benefits Plan for the State of Alabama.

Box 12- **Code C** includes the value of premiums on the cost of group-term life insurance provided by Retirement Systems to the extent it exceeds \$50,000 coverage.

Code G includes the amount of deferrals to the Section 457, Deferred Compensation plans for the State of Alabama.

Box 13- "Retirement Plan" is denoted with an "X" if retirement contributions were withheld from employees' wages in 2004.

Box 14- This box is used to identify amounts that are included in the calculation of taxable wages and is defined **for informational purposes only**. This box includes deferred retirement amounts, non-overnight per diem payments, car usage amounts, exempt health insurance premiums and premiums paid for health care under the State's cafeteria plan.

Box 16- "State wages, tips, etc." reflects the amount of wages paid that are subject to Alabama State tax. This amount should be used on the employee's State tax return. This box is calculated as follows:

+	Year to Date Gross Wages
-	Subsistence
-	Deferred Compensation Contributions
-	Exempt Health Insurance Premiums
-	Exempt Child Care payments (DPCRE)
-	Exempt Health Care payments (HLCRE)
-	BASBAQ (Military allowance for quarters)
-	Military Differential Pay
+	Life Insurance Premium
+	Personal Use of State Provided Vehicles
+	Tips
+	Per Diem Paid to Legislators on Voucher
=	State Taxable Wages

Box 17- "State income tax" is the total withheld from employees' wages for Alabama income tax.

Box 19- "Local income tax" is the total withheld from employees' wages for city and county occupational taxes.

If you have additional questions, please contact Sandra Horn at (334) 242-2182.

RLC:sh/th