
2011 Instructions for Form W-2 and W-3

Wage and Tax Statement and Transmittal of Wage and Tax Statements

VOLUME 1 OF 2



Department of the Treasury
Internal Revenue Service
Instruction W-2 & W-3
(Rev. 2011)
Catalog Number **47712B**

Section references are to the Internal Revenue Code unless otherwise noted.

Contents

Topic	Regular Page	Large Print Page
What's New	1	4
Reminders	1	6
Need Help?	2	11
How To Get Forms and Publications	2	13
Common Errors on Forms W-2	2	17
General Instructions for Forms W-2 and W-3	2	18
Special Reporting Situations for Form W-2	3	29

Penalties	7	64
Specific Instructions for Form W-2	7	71
Specific Instructions for Form W-3	11	112
Reconciling Forms W-2, W-3, 941, 943, 944, CT-1, and Schedule H (Form 1040)	12	121
Form W-2 Reference Guide for Box 12 Codes	13	125
Index	13	126

What's New

Employee social security tax withholding. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 has temporarily reduced the rate of social security tax withholding (for employees only) from 6.2% to 4.2% for wage payments made

in 2011. See Box 4—Social security tax withheld on page 9.

Advance earned income credit (EIC) payments. The advance earned income credit payment is eliminated for tax years beginning after December 31, 2010. Box 9, Advance EIC payments, has been deleted from the 2011 Form W-2 and Form W-3.

Interim relief for Form W-2 reporting of the cost of coverage of group health insurance. Code DD is added to box 12 of the 2011 Form W-2 to report the cost of employer-sponsored health coverage.

However, this reporting will not be mandatory for 2011. Additional reporting guidance will be available on the Affordable Care Act Tax Provisions page of IRS.gov. For details, see Notice 2010-69, 2010-44 I.R.B. 576, available at www.irs.gov/irb/2010-44_IRB/ar13.html.

Form W-3, Kind of Employer. To improve document matching compliance, box b of the 2011 Form W-3 has been expanded to include a new section, Kind of Employer, which contains five new checkboxes. Filers are required to check one of these new

checkboxes. Be sure to check the “None apply” checkbox if none of the other checkboxes apply. For more information, see *Box b—Kind of Employer* on page 11.

Increase in information return penalties.

The penalties for failure to file correct information returns and failure to furnish correct payee statements have increased. See *Penalties* on page 7.

Designated Roth contributions.

Participants in governmental section 457(b) plans can treat elective deferrals as Roth contributions. Code EE, Designated Roth contributions under a governmental section 457(b) plan, has been added to the list of codes in box 12 of Form W-2. See *Designated Roth contributions* on page 5.

Reminders



Get it done faster... E-file your Forms W-2 with the SSA. See page 3.

Automatic extension for e-filers. Receive an automatic filing extension by e-filing your

Forms W-2 with the Social Security Administration (SSA). The due date for e-filing 2011 Form W-2 Copy A with the SSA is extended to April 2, 2012. See *Form W-2 e-filing* on page 3.

Business Services Online (BSO). The SSA has enhanced its secure BSO website to make it easier to register and navigate. Use BSO's online fill-in forms to create, save, and submit Forms W-2 and W-2c to the SSA electronically. BSO lets you print copies of these forms to file with state or local governments, distribute to your employees, and keep for your records. BSO generates Form W-3 automatically based on your Forms W-2. You also can use BSO to upload wage files to the SSA, check on the status of previously submitted wage reports, and take advantage of other convenient services for employers and businesses. Visit the SSA's Employer W-2 Filing Instructions & Information website at www.socialsecurity.gov/employer for more information about using BSO to save time for your organization. Here you also will find forms and publications used for wage

reporting, information about verifying employee social security numbers online, how to reach an SSA employer services representative for your region, and more.



Preview BSO by viewing a brief online tutorial. Go to

www.socialsecurity.gov/bsowelcome.html
and click on "Tutorial."

Correcting wage reports. You can use BSO to create, save, print, and submit Forms W-2c, Corrected Wage and Tax Statement, online. After logging in to BSO, navigate to the Electronic Wage Reporting home page and click on the "Forms W-2c/W-3c Online" tab.

Distributions from governmental section 457(b) plans of state and local agencies. Generally, report distributions from section 457(b) plans of state and local agencies on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. See Notice 2003-20 for details. You can find Notice 2003-20 on page 894 of Internal Revenue Bulletin

2003-19 at www.irs.gov/pub/irs-irbs/irb03-19.pdf.

Earned income credit (EIC) notice. You must notify employees who have no income tax withheld that they may be able to claim an income tax refund because of the EIC. You can do this by using the official IRS Form W-2 with the EIC notice on the back of Copy B or a substitute Form W-2 with the same statement. You must give your employee Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit (EIC), or your own statement that contains the same wording if (a) you use a substitute Form W-2 that does not contain the EIC notice, (b) you are not required to furnish Form W-2, or (c) you do not furnish a timely Form W-2 to your employee. For more information, see section 10 in Pub. 15 (Circular E), Employer's Tax Guide.

Electronic statements for employees. Furnishing Copies B, C, and 2 of Forms W-2 to your employees electronically may save you time and effort. See Pub. 15-A,

Employer's Supplemental Tax Guide, for additional information.

Form 944. Use the "944" checkbox in box b of Form W-3 if you filed Form 944, Employer's ANNUAL Federal Tax Return. Also use the "944" checkbox if you filed Formulario 944(SP), the Spanish version of Form 944.

Form W-2 e-filing. If you are filing 250 or more Forms W-2, you must file them electronically, unless the IRS grants you a waiver. Whether you are a large or small employer, or a third-party payroll service provider, you may be able to save time and effort by filing Forms W-2 using the SSA's secure BSO website. See *Form W-2 e-filing* on page 3.

Military differential pay. Employers paying their employees while they are on active duty in United States uniformed services should treat these payments as wages subject to income tax withholding. See *Military differential pay* on page 6.

Nonqualified deferred compensation plans. You are not required to complete box

12 with code Y (deferrals under nonqualified plans subject to section 409A). Section 409A provides that all amounts deferred under a nonqualified deferred compensation (NQDC) plan for all tax years are includible in gross income unless certain requirements are satisfied. See *Nonqualified deferred compensation plans* on page 6.

Substitute forms. If you are not using the official IRS form to furnish Form W-2 to employees or to file with the SSA, you may use an acceptable substitute form that complies with the rules in Pub. 1141, General Rules and Specifications for Substitute Forms W-2 and W-3.

Pub. 1141, which is revised annually, is a revenue procedure that explains the requirements for format and content of substitute Forms W-2 and W-3. Your substitute forms must comply with the requirements in Pub. 1141.

Need Help?

Help with Form W-2 e-filing. If you have questions about how to register or use BSO,

call 1-800-772-6270 (toll free) to speak with an employer reporting specialist at the SSA. The hours of operation are Monday through Friday from 7:00 a.m. to 7:00 p.m., Eastern time. If you experience problems using any of the services within BSO, call 1-888-772-2970 (toll free). For a wealth of information about wage reporting, including regional support, visit the SSA's Employer W-2 Filing Instructions & Information page at [www.socialsecurity.gov/ employer](http://www.socialsecurity.gov/employer).

Information reporting customer service site. The IRS operates a centralized customer service site to answer questions about reporting on Forms W-2, W-3, 1099, and other information returns. If you have questions about reporting on these forms, call 1-866-455-7438 (toll free). The hours of operation are Monday through Friday from 8:30 a.m. to 4:30 p.m., Eastern time.

Hearing impaired TTY/TDD equipment. Telephone help is available using TTY/TDD equipment. If you have questions about reporting on information returns (Forms 1096, 1097, 1098, 1099, 3921, 3922, 5498,

W-2, W-2G, and W-3), call 1-304-579-4827. For any other tax information, call 1-800-829-4059.

Employment tax information. Detailed employment tax information is given in:

- Pub. 15 (Circular E), Employer's Tax Guide,
- Pub. 15-A, Employer's Supplemental Tax Guide,
- Pub. 15-B, Employer's Tax Guide to Fringe Benefits, and
- Pub. 51 (Circular A), Agricultural Employer's Tax Guide.

You also can call the IRS with your employment tax questions at 1-800-829-4933 or visit IRS.gov and type "Employment Taxes" in the search box.

How To Get Forms and Publications

Internet. You can access IRS.gov 24 hours a day, 7 days a week to:

- Download, view, and order tax forms, instructions, and publications.
- Access commercial tax preparation and e-file services.
- Research your tax questions online.
- See answers to frequently asked tax questions.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins published in the last few years.
- Sign up to receive local and national tax news by email.



Do not download Copy A of Forms W-2, W-3, W-2c, or W-3c from the IRS website and then file them with the SSA. The SSA accepts only e-filed reports and the official red-ink versions (or approved substitute versions) of these forms. For information about e-filing, see Form W-2 e-filing on page 3.

Free tax services. To find out what services are available, get Pub. 910, IRS Guide to Free Tax Services. It contains lists of free tax information sources, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone. Accessible versions of IRS published products are available on request in a variety of alternative formats.



DVD of tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.

- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
 - The first release will ship the beginning of January 2011.
 - The final release will ship the beginning of March 2011.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/cdorders for \$30 (no handling fee) or call 1-877-233-6767 toll free to purchase the DVD for \$30 (plus a \$6 handling fee).

Mail. You can send your order for forms, instructions, and publications to the following address. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Parkway
Bloomington, IL 61705-6613

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to order forms and publications.

Common Errors on Forms W-2

Forms W-2 provide information to your employees, the SSA, the IRS, and state and local governments. Avoid making the following errors, which cause processing delays.

Do not:

- Omit the decimal point and cents from entries.

- Make entries using ink that is too light. Use only black ink.
- Make entries that are too small or too large. Use 12-point Courier font, if possible.
- Add dollar signs to the money-amount boxes. They have been removed from Copy A and are not required.
- Inappropriately check the "Retirement plan" checkbox in box 13. See *Retirement plan* on page 11.
- Misformat the employee's name in box e. Enter the employee's first name and middle initial in the first box, his or her surname in the second box, and his or her suffix (optional) in the third box.

General Instructions for Forms W-2 and W-3

Who must file Form W-2. Every employer engaged in a trade or business who pays remuneration for services performed by an employee, including noncash payments, must file a Form W-2 for each employee (even if

the employee is related to the employer) from whom:

- Income, social security, or Medicare tax was withheld.
- Income tax would have been withheld if the employee had claimed no more than one withholding allowance or had not claimed exemption from withholding on Form W-4, Employee's Withholding Allowance Certificate.

If you are required to file 250 or more Forms W-2, or want to take advantage of the benefits of e-filing, see *Form W-2 e-filing* on page 3.

Who must file Form W-3. Anyone required to file Form W-2 must file Form W-3 to transmit Copy A of Forms W-2. Make a copy of Form W-3; keep it and Copy D (For Employer) of Forms W-2 with your records for 4 years. Be sure to use Form W-3 for the correct year. If you are filing Forms W-2 electronically, see *Form W-2 e-filing* on page 3.

Household employers. Even employers with only one household employee must file Form W-3 to transmit Copy A of Form W-2. On Form W-3 check the “Hshld. emp.” checkbox in box b. For more information, see Schedule H (Form 1040), Household Employment Taxes, and its separate instructions. You must have an EIN. See *Box b—Employer identification number (EIN)* on page 8.

Who may sign Form W-3. A transmitter or sender (including a service bureau, reporting agent, paying agent, or disbursing agent) may sign Form W-3 (or use its PIN to *e-file*) for the employer or payer only if the sender:

- Is authorized to sign by an agency agreement (either oral, written, or implied) that is valid under state law; and
- Writes “For (name of payer)” next to the signature (paper Form W-3 only).



Use of a reporting agent or other third-party payroll service provider does not relieve an employer of the responsibility to ensure that Forms W-2 are furnished to employees, and that Forms W-2

and W-3 are filed with the SSA, correctly and on time.

Be sure that the payer's name and employer identification number (EIN) on Forms W-2 and W-3 are the same as those used on the Form 941, Employer's QUARTERLY Federal Tax Return; Form 943, Employer's Annual Federal Tax Return for Agricultural Employees; Form 944; Form CT-1, Employer's Annual Railroad Retirement Tax Return; or Schedule H (Form 1040) filed by or for the payer.

When to file. If you file using paper forms, you must file Copy A of Form W-2 with Form W-3 by February 29, 2012. However, if you *e-file*, the due date is automatically extended to April 2, 2012. You may owe a penalty for each Form W-2 that you file late. See *Penalties* on page 7. If you terminate your business, see *Terminating a business* on page 6.

Extension to file. You may request an automatic extension of time to file Form W-2 with the SSA by sending Form 8809, Application for Extension of Time To File

Information Returns, to the address shown on Form 8809. You must request the extension before the due date of Forms W-2. You will have an additional 30 days to file. See Form 8809 for details.



Even if you request an extension of time to file Form W-2, you still must furnish Form W-2 to your employees by January 31, 2012. But see Extension of time to furnish Forms W-2 to employees, later.

Where to file paper forms. File Copy A of Form W-2 with Form W-3 at the following address.

**Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001**



*If you use "Certified Mail" to file, change the ZIP code to "18769-0002."
If you use an IRS-approved private delivery service, add "ATTN: W-2 Process, 1150 E. Mountain Dr." to the address and change the ZIP code to "18702-7997." See Pub. 15 (Circular E) for a list of IRS-approved private delivery services.*



Do not send cash, checks, money orders, or other forms of payment with the Forms W-2 and W-3 that you submit to the SSA. Employment tax forms (for example, Form 941 or Form 943), remittances, and Forms 1099 must be sent to the IRS.

Send Copy 1 of Form W-2, if required, to your state, city, or local tax department. For more information concerning Copy 1 (including how to complete boxes 15 through 20), contact your state, city, or local tax department.

Shipping and mailing. If you file more than one type of employment tax form, group Forms W-2 of the same type with a separate Form W-3 for each type, and send them in separate groups. See the specific instructions for box b of Form W-3 beginning on page 11.

Prepare and file Forms W-2 either alphabetically by employees' last names or numerically by employees' social security numbers. Do not staple or tape Form W-3 to the related Forms W-2 or Forms W-2 to each other. These forms are machine read. Staple holes or tears interfere with machine reading.

Also, do not fold Forms W-2 and W-3. Send the forms to the SSA in a flat mailing.

Form W-2 e-filing. The SSA encourages all employers to e-file. E-filing can save you time and effort and helps ensure accuracy. You must e-file if you are required to file 250 or more Forms W-2. If you are required to e-file but fail to do so, you may incur a penalty.

You can request a waiver from this requirement by filing Form 8508, Request for Waiver From Filing Information Returns Electronically. Submit Form 8508 to the IRS at least 45 days before the due date of Form W-2. See Form 8508 for information about filing this form.

The SSA's BSO website makes e-filing easy by providing two ways to submit your Form W-2 Copy A and Form W-3 information.

- If you need to file 20 or fewer Forms W-2 at a time, you can use BSO to create them online. BSO guides you through the process of creating Forms W-2, saving and printing them, and submitting them to the SSA when you are ready. You do not have

to wait until you have submitted Forms W-2 to the SSA before printing copies for your employees. BSO generates Form W-3 automatically based on your Forms W-2.

- If you need to file more than 20 Forms W-2, BSO's "file upload" feature might be the best e-filing method for your business or organization. To obtain file format specifications, visit the SSA's Employer W-2 Filing Instructions & Information page at www.socialsecurity.gov/employer and click on "E-Filing Format." This information is also available by calling the SSA's Employer Reporting Branch at 1-800-772-6270 (toll free).



If you e-file, do not file the same returns using paper forms.

For more information about e-filing Forms W-2 and a link to the BSO website, visit SSA's Employer W-2 Filing Instructions & Information page at www.socialsecurity.gov/employer.

In a few situations, reporting instructions are different depending on whether you are e-

filing or using paper forms. For example, paper filers are limited to four box 12 entries per Form W-2, but e-filers can make an unlimited number of entries for each type of box 12 amount. This is because electronic data is not subject to the same space limitations as paper forms. See the TIP for Copy A on page 9.

Furnishing Copies B, C, and 2 to employees. Generally, you must furnish Copies B, C, and 2 of Form W-2 to your employees by January 31, 2012. You will meet the “furnish” requirement if the form is properly addressed and mailed on or before the due date.

If employment ends before December 31, 2011, you may furnish copies to the employee at any time after employment ends, but no later than January 31, 2012. If an employee asks for Form W-2, give him or her the completed copies within 30 days of the request or within 30 days of the final wage payment, whichever is later. However, if you terminate your business, see Terminating a business on page 6.

You may furnish Forms W-2 to employees on IRS official forms or on acceptable substitute forms. See Substitute forms on page 1. Be sure the Forms W-2 you provide to employees are clear and legible and comply with the requirements in Pub. 1141.

Extension of time to furnish Forms W-2 to employees. You may request an extension of time to furnish Forms W-2 to employees by sending a letter to:

**Internal Revenue Service
Information Returns Branch, Mail Stop
4360
Attn: Extension of Time Coordinator
240 Murall Drive
Kearneysville, WV 25430**

Mail your letter on or before the due date for furnishing Forms W-2 to employees. It must include:

- Your name and address,
- Your employer identification number (EIN),

- A statement that you are requesting an extension to furnish “Forms W-2” to employees,
- The reason for delay, and
- Your signature or that of your authorized agent.



Requests for an extension of time to furnish recipient statements for more than 10 payers must be submitted electronically. See Publication 1220, Part D, Sec. 4.

Undeliverable Forms W-2. Keep for 4 years any employee copies of Forms W-2 that you tried to but could not deliver. However, if the undelivered Form W-2 can be produced electronically through April 15th of the fourth year after the year at issue, you do not need to keep undeliverable employee copies. Do not send undeliverable Forms W-2 to the SSA.

Taxpayer identification numbers (TINs). Employers use an employer identification number (EIN) (00-0000000). Employees use a social security number (SSN) (000-00-

0000). When you list a number, separate the nine digits properly to show the kind of number. Do not accept an individual taxpayer identification number (ITIN) for employment purposes. For more information, see section 4 of Pub. 15 (Circular E).

The IRS uses SSNs to check the payments that you report against the amounts shown on the employees' tax returns. The SSA uses SSNs to record employees' earnings for future social security and Medicare benefits. When you prepare Form W-2, be sure to show the correct SSN for each employee. For information about verifying SSNs, see section 4 of Pub. 15 (Circular E) or visit the SSA's Employer W-2 Filing Instructions & Information website at www.socialsecurity.gov/employer.

Special Reporting Situations for Form W-2

Adoption benefits. Amounts paid or expenses incurred by an employer for qualified adoption expenses under an adoption assistance program are not subject

to federal income tax withholding and are not reportable in box 1. However, these amounts (including adoption benefits paid from a section 125 (cafeteria) plan, but not including adoption benefits forfeited from a cafeteria plan) are subject to social security, Medicare, and railroad retirement taxes and must be reported in boxes 3 and 5. (Use box 14 if railroad retirement taxes apply.) Also, the total amount must be reported in box 12 with code T.

For more information on adoption benefits, see Notice 97-9, 1997-1

C.B. 365, which is on page 35 of Internal Revenue Bulletin 1997-2 at www.irs.gov/pub/irs-irbs/irb97-02.pdf. Advise your employees to see the Instructions for Form 8839, Qualified Adoption Expenses.

Agent reporting. Generally, an agent who has an approved Form 2678, Employer/Payer Appointment of Agent, should enter the agent's name as the employer in box c of Form W-2 and file only one Form W-2 for each employee. However, if the agent (a) is acting as an agent for two or more employers

or is an employer and is acting as an agent for another employer, and (b) pays social security wages to an individual on behalf of more than one employer, and (c) the total of the individual's social security wages from these employers is greater than the social security wage base, the agent must file separate Forms W-2 for the affected employee reflecting the wages paid by each employer.

On the Form W-2 the agent should enter the following in box c of Form W-2.

(Name of agent)

Agent for (name of employer)

Address of agent

Each Form W-2 should reflect the EIN of the agent in box b. An agent files one Form W-3 for all of the Forms W-2 and enters its own information in boxes e, f, and g of Form W-3 as it appears on the agent's related employment tax returns (for example, Form 941). Enter the client-employer's EIN in box h of Form W-3 if the Forms W-2 relate to only one employer (other than the agent); if not, leave box h blank. See Rev. Proc. 70-6, 1970-

1 C.B. 420; Notice 2003-70, 2003-43 I.R.B. 916, available at www.irs.gov/irb/2003-43_IRB/ar09.html; and the Instructions for Form 2678 for procedures to be followed in applying to be an agent. For state and local health and welfare agencies wishing to act as agents under section 3504, see Rev. Proc. 80-4, 1980-1 C.B. 581.



Generally, an agent is not responsible for refunding excess social security or railroad retirement (RRTA) tax withheld from employees. If an employee worked for more than one employer during 2011 and had more than \$4,485.60 in social security and Tier I RRTA tax withheld, he or she should claim the excess on the appropriate line of Form 1040, Form 1040A, or Form 1040NR. If an employee had more than \$3,088.80 in Tier II RRTA tax withheld from more than one employer, the employee should claim a refund on Form 843, Claim for Refund and Request for Abatement.

Archer MSA. An employer's contribution to an employee's Archer MSA is not subject to federal income tax withholding, or social

security, Medicare, or railroad retirement taxes if it is reasonable to believe at the time of the payment that the contribution will be excludable from the employee's income.

However, if it is not reasonable to believe at the time of payment that the contribution will be excludable from the employee's income, employer contributions are subject to income tax withholding and social security and Medicare taxes (or railroad retirement taxes, if applicable) and must be reported in boxes 1, 3, and 5. (Use box 14 if railroad retirement taxes apply.)

You must report all employer contributions to an Archer MSA in box 12 of Form W-2 with code R. Employer contributions to an Archer MSA that are not excludable from the income of the employee also must be reported in box 1. An employee's contributions to an Archer MSA are includible in income as wages and are subject to federal income tax withholding and social security and Medicare taxes (or railroad retirement taxes, if applicable).

Employee contributions are deductible, within limits, on the employee's Form 1040. For more information, see Pub. 969, Health

Savings Accounts and Other Tax-Favored Health Plans, and Notice 96-53, which is found on page 5 of Internal Revenue Bulletin 1996-51 at www.irs.gov/pub/irs-irbs/irb96-51.pdf.

Clergy and religious workers. For certain members of the clergy and religious workers who are not subject to social security and Medicare taxes as employees, boxes 3 and 5 of Form W-2 should be left blank. You may include a minister's parsonage and/or utilities allowance in box 14. For information on the rules that apply to ministers and certain other religious workers, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers, and Section 4—Religious Exemptions and Special Rules for Ministers in Pub. 15-A.

Corrections. Use the current version of Form W-2c, Corrected Wage and Tax Statement, to correct errors (such as incorrect name, SSN, or amount) on a previously filed Form W-2. File Form W-2c with the SSA. To e-file your corrections, see Correcting wage reports on page 1.

If the SSA issues your employee a replacement card after a name change, or a new card with a different social security number after a change in alien work status, file a Form W-2c to correct the name/SSN reported on the most recently filed Form W-2. It is not necessary to correct the prior years if the previous name and number were used for the years prior to the most recently filed Form W-2.

File Form W-3c, Transmittal of Corrected Wage and Tax Statements, whenever you file a Form W-2c with the SSA, even if you are only filing a Form W-2c to correct an employee's name or SSN. However, see Incorrect address on employee's Form W-2, later, for information on correcting an employee's address. See the Instructions for Forms W-2c and W-3c if an error was made on a previously filed Form W-3.

If you discover an error on Form W-2 after you issue it to your employee but before you send it to the SSA, check the "Void" box at the top of the incorrect Form W-2 on Copy A. Prepare a new Form W-2 with the correct

information, and send Copy A to the SSA. Write "CORRECTED" on the employee's new copies (B, C, and 2), and furnish them to the employee. If the "Void" Form W-2 is on a page with a correct Form W-2, send the entire page to the SSA. The "Void" form Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund; Form 943-X, Adjusted Employer's Annual Federal Tax Return for Agricultural Employees or Claim for Refund; Form 944-X, Adjusted Employer's ANNUAL Federal Tax Return or Claim for Refund; or Form CT-1X, Adjusted Employer's Annual Railroad Retirement Tax Return or Claim for Refund, for the return period in which you found the error. See section 13 of Pub. 15 (Circular E) for more details. If you are making corrections to a previously filed Schedule H (Form 1040), see Pub. 926, Household Employer's Tax Guide. Issue the employee a Form W-2c if the error discovered was for the prior year.

Incorrect address on employee's Form W-2. If you filed a Form W-2 with the SSA showing an incorrect address for the employee but all other information on the

Form W-2 is correct, do not file Form W-2c with the SSA merely to correct the address. However, if the address was incorrect on the Form W-2 furnished to the employee, you must do one of the following.

- Issue a new, corrected Form W-2 to the employee that includes the new address. Indicate "REISSUED STATEMENT" on the new copies. Do not send Copy A to the SSA.
- Issue a Form W-2c to the employee showing the correct address in box i and all other correct information. Do not send Copy A to the SSA.
- Reissue a Form W-2 with the incorrect address to the employee in an envelope showing the correct address, or otherwise deliver it to the employee.

Deceased employee's wages. If an employee dies during the year, you must report the accrued wages, vacation pay, and other compensation paid after the date of death. Wages that were constructively received by the employee while he or she was

alive are reported on Form W-2 as any other regular wage payment, even if you may have to reissue the payment in the name of the estate or beneficiary.

If you made the payment after the employee's death but in the same year the employee died, you must withhold social security and Medicare taxes on the payment and report the payment on the employee's Form W-2 only as social security and Medicare wages to ensure proper social security and Medicare credit is received. On the employee's Form W-2, show the payment as social security wages (box 3) and Medicare wages and tips (box 5) and the social security and Medicare taxes withheld in boxes 4 and 6. Do not show the payment in box 1.

If you made the payment after the year of death, do not report it on Form W-2, and do not withhold social security and Medicare taxes.

Whether the payment is made in the year of death or after the year of death, you also must report it in box 3 of Form 1099-MISC, Miscellaneous Income, for the payment to the

estate or beneficiary. Use the name and taxpayer identification number (TIN) of the payment recipient on Form 1099-MISC. However, if the payment is a reissuance of wages that were constructively received by the deceased individual while he or she was still alive, do not report it on Form 1099-MISC.

Example. Before Employee A's death on June 15, 2011, A was employed by Employer X and received \$10,000 in wages on which federal income tax of \$1,500 was withheld. When A died, X owed A \$2,000 in wages and \$1,000 in accrued vacation pay. The total of \$3,000 (less the social security and Medicare taxes withheld) was paid to A's estate on July 20, 2011. Because X made the payment during the year of death, X must withhold social security and Medicare taxes on the \$3,000 payment and must complete Form W-2 as follows.

- Box a – Employee A's SSN
- Box e – Employee A's name
- Box f – Employee A's address

- Box 1 – 10000.00 (does not include the \$3,000 accrued wages and vacation pay)
- Box 2 – 1500.00
- Box 3 – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- Box 4 – 546.00 (4.2% of the amount in box 3)
- Box 5 – 13000.00 (includes the \$3,000 accrued wages and vacation pay)
- Box 6 – 188.50 (1.45% of the amount in box 5)



Employer X also must complete Form 1099-MISC as follows.

- Boxes for recipient's name, address, and TIN—the estate's name, address, and TIN.
- Box 3: 3000.00 (Even though amounts were withheld for social security and Medicare taxes, the gross amount is reported here.)

If Employer X made the payment after the year of death, the \$3,000 would not be subject to social security and Medicare taxes

and would If you are making a correction for a previously filed Form 941, Form not be shown on Form W-2. However, the employer would still file Form 943, Form 944, or Form CT-1, use the corresponding "X" form, such as 1099-MISC.

Designated Roth contributions. Under section 402A, a participant in a section 401(k) plan, under a 403(b) salary reduction agreement, or in a governmental 457(b) plan that includes a qualified Roth contribution program may elect to make designated Roth contributions to the plan or program in lieu of elective deferrals. Designated Roth contributions are subject to federal income tax withholding and social security and Medicare taxes (and railroad retirement taxes, if applicable) and must be reported in boxes 1, 3, and 5. (Use box 14 if railroad retirement taxes apply.)

Section 402A requires separate reporting of the yearly designated Roth contributions. Designated Roth contributions to 401(k) plans will be reported using code AA in box 12; designated Roth contributions under 403(b)

salary reduction agreements will be reported using code BB in box 12; and designated Roth contributions under a governmental section 457(b) plan will be reported using Code EE in box 12. For reporting instructions, see Code AA, Code BB, and Code EE on page 11.

Educational assistance programs.

Employer-provided educational assistance that qualifies as a working condition benefit is excludable from an employee's wages. For employer-provided educational assistance that does not qualify as a working condition benefit, a \$5,250 exclusion may apply if the assistance is provided under an educational assistance program under section 127. See Pub. 970, Tax Benefits for Education, and section 2 of Pub. 15-B for more information. Also see Box 1—Wages, tips, other compensation on page 8.

Election workers. Report on Form W-2 payments of \$600 or more to election workers for services performed in state, county, and municipal elections. File Form W-2 for payments of less than \$600 paid to election workers if social security and

Medicare taxes were withheld under a section 218 (Social Security Act) agreement. Do not report election worker payments on Form 1099-MISC.

If the election worker is employed in another capacity with the same government entity, see Rev. Rul. 2000-6 on page 512 of Internal Revenue Bulletin 2000-6 at www.irs.gov/pub/irs-irbs/irb00-06.pdf.

Employee business expense reimbursements. Reimbursements to employees for business expenses must be reported as follows.

- Generally, payments made under an accountable plan are excluded from the employee's gross income and are not reported on Form W-2. However, if you pay a per diem or mileage allowance and the amount paid for substantiated miles or days traveled exceeds the amount treated as substantiated under IRS rules, you must report as wages on Form W-2 the amount in excess of the amount treated as substantiated. The excess amount is subject to income tax withholding and

social security and Medicare taxes. Report the amount treated as substantiated (that is, the nontaxable portion) in box 12 using code L. See Code L— Substantiated employee business expense reimbursements on page 10.

- Payments made under a nonaccountable plan are reported as wages on Form W-2 and are subject to federal income tax withholding and social security and Medicare taxes.

For more information on accountable plans, nonaccountable plans, amounts treated as substantiated under a per diem or mileage allowance, the standard mileage rate, the per diem substantiation method, and the high-low substantiation method, see Pub. 463, Travel, Entertainment, Gift, and Car Expenses; Pub. 1542, Per Diem Rates; and section 5 of Pub. 15 (Circular E).

Employee's social security and Medicare taxes paid by employer. If you paid your employee's share of social security and Medicare taxes rather than deducting them from the employee's wages, you must include

these payments as wages subject to federal income tax withholding and social security, Medicare, and federal unemployment (FUTA) taxes. The amount to include as wages is determined by using the formula contained in the discussion of Employee's Portion of Taxes Paid by Employer in section 7 of Pub. 15-A.



This does not apply to household and agricultural employers. If you pay a household or agricultural employee's social security and Medicare taxes, you must include these payments in the employee's wages for income tax withholding purposes. However, the wage increase due to the tax payments is not subject to social security, Medicare, or FUTA taxes. For information on completing Forms W-2 and W-3 in this situation, see the Instructions for Schedule H (Form 1040), Household Employment Taxes, and section 4 of Pub. 51 (Circular A).

Fringe benefits. Include all taxable fringe benefits in box 1 of Form W-2 as wages, tips, and other compensation and, if applicable, in boxes 3 and 5 as social security and Medicare wages. Although not required, you may

include the total value of fringe benefits in box 14 (or on a separate statement).

However, if you provided your employee a vehicle and included 100% of its annual lease value in the employee's income, you must separately report this value to the employee in box 14 (or on a separate statement). The employee can then figure the value of any business use of the vehicle and report it on Form 2106, Employee Business Expenses. Also see Pub. 15-B for more information.



If you used the commuting rule or the vehicle cents-per-mile rule to value the personal use of the vehicle, you cannot include 100% of the value of the use of the vehicle in the employee's income. See Pub. 15-B.

Golden parachute payments. Include any golden parachute payments in boxes 1, 3, and 5 of Form W-2. Withhold federal income, social security, and Medicare taxes as usual and report them in boxes 2, 4, and 6, respectively. Excess parachute payments are also subject to a 20% excise tax. If the excess payments are considered wages,

withhold the 20% excise tax and include it in box 2 as income tax withheld. Also report the excise tax in box 12 with code K. For definitions and additional information, see Regulations section 1.280G-1 and Rev. Proc. 2003-68, 2003-34 I.R.B. 398, available at www.irs.gov/irb/2003-34_IRB/ar16.html.

Government employers. Federal, state, and local governmental agencies have two options for reporting their employees' wages that are subject to only Medicare tax for part of the year and both social security and Medicare taxes for part of the year.

Option one (which the SSA prefers) is to file a single Form W-2 reflecting the employees' wages for the entire year, even if only part of the year's wages was subject to both social security and Medicare taxes. The Form W-3 must have the "941" checkbox checked in box b. The wages in box 5 must be equal to or greater than the wages in box 3 on Form W-2.

Option two is to file two Forms W-2 for each employee who received wages subject only to Medicare tax for part of the year, and two

Forms W-3. File one Form W-2 for wages subject to Medicare tax only. Be sure to check the "Medicare govt. emp." checkbox in box b of the Form W-3 used to transmit these Forms W-2. File the second Form W-2 for wages subject to both social security and Medicare taxes with the "941" checkbox checked in box b of the second Form W-3. The wages in box 5 on each Form W-2 must be equal to or greater than the wages in box 3 on that same Form W-2.

Group-term life insurance. You must include in boxes 1, 3, and 5 the cost of group-term life insurance that is more than the cost of \$50,000 of coverage, reduced by the amount the employee paid toward the insurance. Use the table in section 2 of Pub. 15-B to determine the cost of the insurance. Also, show the amount in box 12 with code C. For employees, you must withhold social security and Medicare taxes, but not federal income tax. For coverage provided to former employees, the former employees must pay the employee part of social security and Medicare taxes on the taxable cost of group-term life insurance over \$50,000 on Form

1040. You are not required to collect those taxes. However, you must report the uncollected social security tax with code M and the uncollected Medicare tax with code N in box 12 of Form W-2.

Health savings account (HSA). An employer's contribution (including an employee's contributions through a cafeteria plan) to an employee's HSA is not subject to federal income tax withholding or social security, Medicare, or railroad retirement taxes (or FUTA tax) if it is reasonable to believe at the time of the payment that the contribution will be excludable from the employee's income. However, if it is not reasonable to believe at the time of payment that the contribution will be excludable from the employee's income, employer contributions are subject to federal income tax withholding, social security and Medicare taxes (or railroad retirement taxes, if applicable), and FUTA tax and must be reported in boxes 1, 3, and 5 (use box 14 if railroad retirement taxes apply), and on Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return.

You must report all employer contributions (including an employee's contributions through a cafeteria plan) to an HSA in box 12 of Form W-2 with code W. Employer contributions to an HSA that are not excludable from the income of the employee also must be reported in boxes 1, 3, and 5. (Use box 14 if railroad retirement taxes apply.)

An employee's contributions to an HSA (unless made through a cafeteria plan) are includible in income as wages and are subject to federal income tax withholding and social security and Medicare taxes (or railroad retirement taxes, if applicable). Employee contributions are deductible, within limits, on the employee's Form 1040. For more information about HSAs, see Notice 2004-2, Notice 2004-50, and Notice 2008-52. Notice 2004-2, 2004-2 I.R.B. 269, is available at www.irs.gov/irb/2004-02_IRB/ar09.html. Notice 2004-50, 2004-33 I.R.B. 196, is available at www.irs.gov/irb/2004-33_IRB/ar08.html. Notice 2008-52, 2008-25 I.R.B. 1166, is available at www.irs.gov/irb/2008-25_IRB/ar10.html.

Also see Form 8889, Health Savings Accounts (HSAs), and Pub. 969.

Lost Form W-2—reissued statement. If an employee loses a Form W-2, write “REISSUED STATEMENT” on the new copy and furnish it to the employee. You do not have to add “REISSUED STATEMENT” on Forms W-2 provided to employees electronically. Do not send Copy A of the reissued Form W-2 to the SSA. Employers are not prohibited (by the Internal Revenue Code) from charging a fee for the issuance of a duplicate Form W-2.

Military differential pay. Employers paying their employees while they are on active duty in the United States uniformed services should treat these payments as wages. Differential wage payments made to an individual while on active duty for periods scheduled to exceed 30 days are subject to income tax withholding, but are not subject to social security, Medicare, and unemployment taxes. Report differential wage payments in box 1 and any federal income tax withholding in box 2. Differential wage payments made to an individual while on active duty for 30 days

or less are subject to income tax withholding, social security, Medicare, and unemployment taxes, and are reported in boxes 1, 3, and 5. See Rev. Rul. 2009-11, 2009-18 I.R.B. 896, available at www.irs.gov/irb/2009-18_IRB/ar07.html.

Moving expenses. Report moving expenses as follows.

- Qualified moving expenses that an employer paid to a third party on behalf of the employee (for example, to a moving company) and services that an employer furnished in kind to an employee are not reported on Form W-2.
- Qualified moving expense reimbursements paid directly to an employee by an employer are reported only in box 12 of Form W-2 with code P.
- Nonqualified moving expense reimbursements are reported in boxes 1, 3, and 5 (use box 14 if railroad retirement taxes apply) of Form W-2. These amounts are subject to federal income tax withholding and social security and

Medicare taxes (or railroad retirement taxes, if applicable).

For more information on qualified and nonqualified moving expenses, see Pub. 521, Moving Expenses.

Nonqualified deferred compensation plans. Section 409A provides that all amounts deferred under a nonqualified deferred compensation (NQDC) plan for all tax years are currently includible in gross income unless certain requirements are met. Generally, section 409A is effective with respect to amounts deferred in tax years beginning after December 31, 2004, but deferrals made prior to that year may be subject to section 409A under some circumstances.

It is not necessary to show amounts deferred during the year under an NQDC plan subject to section 409A. If you report section 409A deferrals, show the amount in box 12 using code Y. For more information, see Notice 2008-115, 2008-52 I.R.B. 1367, available at www.irs.gov/irb/2008-52_IRB/ar10.html.

Income included under section 409A from an NQDC plan will be reported in box 1, and in box 12 using code Z. This income is also subject to an additional tax of 20% that is reported on Form 1040. For more information on amounts includible in gross income and reporting requirements, see proposed Regulations section 1.409A-4, 2008-51

I.R.B. 1325, and Notice 2008-115. For information on correcting failures to comply with section 409A and related reporting, see Notice 2008-113, 2008-51 I.R.B. 1305, available at www.irs.gov/irb/2008-51_IRB/ar12.html, Notice 2010-6, 2010-3 I.R.B. 275, available at www.irs.gov/irb/2010-3_IRB/ar08.html, and Notice 2010-80, 2010-51

I.R.B. 853, available at www.irs.gov/irb/2010-51_IRB/ar08.html.

Railroad employers. Railroad employers must file Form W-2 to report their employees' wages and income tax withholding in boxes 1 and 2. Electronic reporting may be required; see Form W-2 e-filing on page 3. If you have employees covered under the Federal

Insurance Contributions Act (FICA) (social security and Medicare) and the Railroad Retirement Tax Act (RRTA), you must file a separate Form W-3 to transmit the Forms W-2 for each group of employees.

For employees covered by social security and Medicare, complete boxes 3, 4, 5, 6, and 7 of Form W-2 to show the social security and Medicare wages and the amounts withheld for social security and Medicare taxes. On the Form W-3 used to transmit these Forms W-2, check the "941" checkbox in box b.

For employees covered by RRTA tax, report the Tier I and Tier II taxes withheld in box 14 of Form W-2. Label them "Tier I tax" and "Tier II tax." Boxes 3, 4, 5, 6, and 7 apply only to covered social security and Medicare wages and taxes and are not to be used to report railroad retirement wages and taxes. On the Form W-3 used to transmit these Forms W-2, check the "CT-1" checkbox in box b.

Repayments. If an employee repays you for wages received in error, do not offset the repayments against current year's wages

unless the repayments are for amounts received in error in the current year.

Repayments made in the current year, but related to a prior year or years, must be repaid in gross, not net, and require special tax treatment by employees in some cases. You may advise the employee of the total repayments made during the current year and the amount (if any) related to prior years. This information will help the employee account for such repayments on his or her federal income tax return.

If the repayment was for a prior year, you must file Form W-2c with the SSA to correct only social security and Medicare wages and taxes.

Do not correct "Wages, tips, other compensation" in box 1, or "Federal income tax withheld" in box 2, on Form W-2c. File the "X" return that is appropriate for the return on which the wages were originally reported (Form 941-X, 943-X, 944-X, or CT-1X). Correct the social security and Medicare wages and taxes for the period during which the wages were originally paid. For

information on reporting adjustments to Form 941, Form 943, Form 944, or Form CT-1, see section 13 of Pub. 15 (Circular E) or section 9 of Pub. 51 (Circular A).



Tell your employee that the wages paid in error in a prior year remain taxable to him or her for that year. This is because the employee received and had use of those funds during that year. The employee is not entitled to file an amended return (Form 1040X) to recover the income tax on these wages. Instead, the employee is entitled to a deduction (or a credit, in some cases) for the repaid wages on his or her Form 1040 for the year of repayment. Refer your employee to Repayments in Pub. 525.

Scholarship and fellowship grants. Give a Form W-2 to each recipient of a scholarship or fellowship grant only if you are reporting amounts includible in income under section 117(c) (relating to payments for teaching, research, or other services required as a condition for receiving the qualified scholarship). Also see Pub. 15-A and Pub. 970. These payments are subject to federal

income tax withholding. However, their taxability for social security and Medicare taxes depends on the nature of the employment and the status of the organization. See Students, scholars, trainees, teachers, etc., in section 15 of Pub. 15 (Circular E).

Sick pay. If you had employees who received sick pay in 2011 from an insurance company or other third-party payer and the third party notified you of the amount of sick pay involved, you may be required to report the information on the employees' Forms W-2. If the insurance company or other third-party payer did not notify you in a timely manner about the sick pay payments, it must prepare Forms W-2 and W-3 for your employees showing the sick pay. For specific reporting instructions, see Sick Pay Reporting in section 6 of Pub. 15-A.

SIMPLE retirement account. An employee's salary reduction contributions to a SIMPLE (savings incentive match plan for employees) retirement account are not subject to federal income tax withholding but are subject to

social security, Medicare, and railroad retirement taxes. Do not include an employee's contribution in box 1, but do include it in boxes 3 and 5. (Use box 14 if railroad retirement taxes apply.) An employee's total contribution also must be included in box 12 with code D or S.

An employer's matching or nonelective contribution to an employee's SIMPLE retirement account is not subject to federal income tax withholding or social security, Medicare, or railroad retirement taxes and is not to be shown on Form W-2.

For more information on SIMPLE retirement accounts, see Notice 98-4, 1998-1 C.B. 269. You can find Notice 98-4 on page 25 of Internal Revenue Bulletin 1998-2 at www.irs.gov/pub/irs-irbs/irb98-02.pdf.

Successor/predecessor employers. If you buy or sell a business during the year, see Rev. Proc. 2004-53 for information on who must file Forms W-2 and employment tax returns. Rev. Proc. 2004-53, 2004-34 I.R.B. 320, is available at www.irs.gov/irb/2004-34_IRB/ar13.html.

Terminating a business. If you terminate your business, you must provide Forms W-2 to your employees for the calendar year of termination by the due date of your final Form 941. You also must file Forms W-2 with the SSA by the last day of the month that follows the due date of your final Form 941. If filing on paper, make sure you obtain Forms W-2 and W-3 preprinted with the correct year. If e-filing, make sure your software has been updated for the current tax year.

However, if any of your employees are immediately employed by a successor employer, see Successor/predecessor employers, above. Also, see Rev. Proc. 96-57, 1996-2 C.B. 389, for information on automatic extensions for furnishing Forms W-2 to employees and filing Forms W-2. You can find Rev. Proc. 96-57 on page 14 of Internal Revenue Bulletin 1996-53 at www.irs.gov/pub/irs-irbs/irb96-53.pdf.