



# Instructions for Form W-2

## Wage and Tax Statement

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

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### Need Help?

**Information reporting call site.** The IRS operates a centralized call 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 304-263-8700. If you have questions about magnetic media filing of Forms W-2, contact the Social Security Administration (SSA). See **Magnetic media reporting** on page 2.

**Help for people with disabilities.** Telephone help is available using TTY/TDD equipment. If you have questions about reporting on information returns—Forms 1096, 1098, 1099, 5498, W-2, W-2G, and W-3, you may call 304-267-3367. For other tax information, please call 1-800-829-4059.

**Bulletin board services.** Using a personal computer and a modem, you can get information from either of two electronic Bulletin Board Systems (BBS)—the **SSA-BBS** or the **IRP-BBS** (IRS). You can access the SSA-BBS by dialing 410-965-1133 or the IRP-BBS (IRS) by dialing 304-264-7070.

Information available includes magnetic media filing information, some IRS and SSA forms and publications, information on electronic filing, and general topics of interest about information reporting. You can also use the bulletin board systems to ask questions about magnetic media or electronic filing programs and reporting on information returns.

**Substitute forms.** A revenue procedure explains the format that must be used on all substitute paper Forms W-2 and W-3, Transmittal of Wage and Tax Statements. It is reprinted as **Pub. 1141**, General Rules and Specifications for Private Printing of Substitute Forms W-2 and W-3.

### How To Get Forms and Publications

**Personal computer.** Visit the IRS's Internet Web Site at [www.irs.ustreas.gov](http://www.irs.ustreas.gov) to get:

- Forms and instructions
- Publications
- IRS press releases and fact sheets.

You can also reach us using:

- Telnet at [iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)
- File Transfer Protocol at [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)

- **Direct Dial** (by modem). Dial direct to the Internal Revenue Information Services (IRIS) by calling **703-321-8020** using your modem. IRIS is an on-line information service on FedWorld.

**CD-ROM.** A CD-ROM containing over 2,000 tax products (including many prior year forms) can be purchased from the Government Printing Office (GPO). To order the CD-ROM, call the Superintendent of Documents at **202-512-1800**, or go through GPO's Internet Web Site ([www.access.gpo.gov/su\\_docs](http://www.access.gpo.gov/su_docs)).

**Phone and in person.** To order forms and publications, call **1-800-TAX-FORM (1-800-829-3676)** between 7:30 a.m. and 5:30 p.m. on weekdays. You can also get most forms and publications at your local IRS office.

### Earned Income Credit (EIC) Notification

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

### Changes To Note

**Two checkboxes in box 15 eliminated.** Two checkboxes were removed from box 15. The "Hshld. emp." box was removed because all household employers are now required to file Form W-3 with Form W-2; Form W-3 contains a household employer designation. Also, the "Subtotal" box was removed. You are no longer required to subtotal your Forms W-2 when submitting 42 or more forms.

**Social security wage base increase.** The 1998 wage base for social security is **\$68,400**. There is no limit on the amount of wages subject to Medicare tax. For social security, the tax rate is 6.2% each for employers and employees. For Medicare, the rate is 1.45% each for employers and employees.

**Educational assistance programs.** The \$5,250 exclusion for employer-provided educational assistance, which was scheduled to end with courses started before June 1, 1997, has been extended to include courses starting before June 1, 2000. However, the exclusion does not apply to graduate courses that started after June 30, 1996. Generally, a course starts on the first regular day of class. See **Pub. 508**, Educational Expenses, and **Pub. 15-A**, Employer's Supplemental Tax Guide, for more information. Also see the instructions for box 1 on page 5.

**Form 4782 eliminated.** For 1998 and later years, **Form 4782**, Employee Moving Expense Information, has been **eliminated**. Employers are no longer required to provide this form to employees. However, employers may continue

providing similar information to employees in any format they wish if they deem it helpful to employees.

For 1998 and later years, moving expenses are to be reported as follows:

- Qualified moving expenses an employer pays **to a third party on behalf of the employee** (e.g., to a moving company) and services that an employer furnishes in kind to an employee **will not be reported** on Form W-2.
- Qualified moving expense reimbursements paid **directly to an employee** by an employer **are reported in box 13** with code **P**.

Continue to report **nonqualified** moving expense reimbursements in box 1. These amounts are subject to income tax withholding and social security and Medicare taxes.

**USERRA make-up amounts to a pension plan.** If an employee returned to your employment after military service and certain make-up amounts were contributed to a pension plan for a prior year under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), you must report the prior year contributions separately in box 13. See the box 13 instructions on page 6. You also may report certain make-up amounts in box 14. See the box 14 instructions on page 7.

**Employee's incorrect address on Form W-2c; correction.** If you filed a Form W-2 with SSA showing an incorrect address for the employee but all other information on the Form W-2 is correct, it is **not** necessary to file **Form W-2c**, Corrected Wage and Tax Statement, with SSA merely to correct the address.

However, if the address was incorrect on the Form W-2 furnished to the employee, **you must provide a corrected Form W-2 to the employee**. You may do one of the following:

- Issue a new Form W-2 containing all correct information, including the new address. Indicate "REISSUED STATEMENT" on the new copies. **Do not** send Copy A to SSA.
- Issue a Form W-2c showing the correct address in box b.

**Note:** The Form W-2c instructions will be changed to reflect these instructions when Form W-2c is next revised.

### General Instructions

**Who must file.** Employers must file Form W-2 for each employee from whom:

- **Income, social security, or Medicare taxes have been withheld** or

- 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.

Also, every employer engaged in a trade or business who pays remuneration for services performed by an employee, including noncash payments, must furnish a Form W-2 to each employee. This applies to any employee even if related to the employer.

If you are required to file 250 or more Forms W-2, see **Magnetic media reporting** on page 2.

**Household employers**, even those with only one household employee, must file Form W-3 with Form W-2. On Form W-3 mark the "Hshld. emp." checkbox in box b.

Detailed employment tax information is given in:

- **Circular A**, Agricultural Employer's Tax Guide (Pub. 51),
- **Circular E**, Employer's Tax Guide (Pub. 15),
- **Pub. 15-A**, Employer's Supplemental Tax Guide, and
- **Pub. 926**, Household Employer's Tax Guide.

**When to file Copy A.** File Copy A of Form W-2 with the entire first page of Form W-3, Transmittal of Wage and Tax Statements, by **March 1, 1999. DO NOT STAPLE OR TAPE** Forms W-2 together or to Form W-3. If you terminate your business, see **Employers terminating a business** on this page.

**Extension to file Copy A.** You may request an extension of time for filing Form W-2 by sending **Form 8809**, Request for Extension of Time To File Information Returns, to the address shown on that form. You must request the extension before the due date of the returns for your request to be considered. If approved, you will have an additional 30 days to file. See Form 8809 for more details.

**Note:** *Even if you receive an extension to file Form W-2, you must still furnish Form W-2 to your employees by February 1, 1999. But see, Extension to furnish Forms W-2 to employees, on this page.*

**Where to file Copy A.** File Copy A of Form W-2 with the entire first page of Form W-3 at the following address:

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

**Note:** *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 Circular E for a list of IRS approved private delivery services.*

**Reminder: Do not send cash, checks, stamps, etc. with the Forms W-2 and W-3 that you submit to SSA.** Remittances should be sent to the proper recipient (i.e., payments for employment tax go to the IRS).

**Where to file Copy 1.** Send Copy 1 of Form W-2 to your state, city, or local tax department. For more information concerning Copy 1, contact your state, city, or local tax department.

**Furnishing Copies B, C, and 2 to employees.** Furnish Copies B, C, and 2 of Form W-2 to your employees, generally, by **February 1, 1999.** 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, 1998, you may give copies at any time after employment ends, but by February 1, 1999. If an employee asks for Form W-2, give him or her the completed copies within 30 days of the request or the final wage payment, whichever is later. However, see **Employers terminating a business** on this page.

You may give Forms W-2 to employees on IRS official forms or on privately printed 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 to furnish Forms W-2 to employees.** You may request an extension of time to provide Forms W-2 to employees by sending a letter to:

IRS—Martinsburg Computing Center  
Information Reporting Program  
Attn: Extension of Time Coordinator  
P.O. Box 879, MS-360  
Kearneysville, WV 25430

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

1. Your name and address,
2. Your taxpayer identification number,
3. Type of return,
4. A concise statement of the reason for requesting the extension,
5. A statement that you are requesting an extension to furnish Forms W-2 to employees, and
6. Your signature or that of your authorized agent.

**Employers 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 must also file Forms W-2 with SSA by the last day of the month that follows the due date of your final Form 941. However, if any of your employees are immediately employed by a successor employer, see Rev. Proc. 96-60, 1996-2 C.B. 399. 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 with SSA.

**Successor/predecessor employers.** If you buy or sell a business during the year, see Rev. Proc. 96-60 for information on who must file Forms W-2 and employment tax returns.

**Undeliverable Forms W-2.** Keep for 4 years any employee copies of Forms W-2 that you tried to deliver but could not.

**Copy D.** Keep Copy D with "Your Copy" of Form W-3 for your records.

**Magnetic media reporting.** If you are required to file 250 or more Forms W-2, you must file them on magnetic media unless the IRS granted you a waiver.

You may request a waiver on **Form 8508**, Request for Waiver From Filing Information Returns on Magnetic Media. Submit Form 8508 to the IRS at least 45 days before the due date of the return. Get Form 8508 for filing information.

**Note:** *If you file on magnetic media, do not file the same returns on paper.*

Magnetic media reporting specifications for Forms W-2 and W-3 are in SSA's Pub. No. 42-007 (TIB-4), Magnetic Media Reporting. This item can be downloaded from SSA's bulletin board using a computer and modem by dialing 410-965-1133. You can also get these specifications by contacting any Social Security Magnetic Media Coordinator. Call 1-800-SSA-1213 for the phone number of the coordinator in your area. You may also write to:

Social Security Administration  
Attn: Resubmittal Group  
Room 3-B-10 NB, Metro West  
P.O. Box 2317  
Baltimore, MD 21235

Reporting instructions for magnetic media filing may differ from the paper reporting instructions. For example, magnetic media filers may enter more than three items in box 13 in one individual's wage report, but paper filers are limited to three entries in box 13.

**How to complete Form W-2.** Form W-2 is a six-part form. Please ensure that all copies are legible.

Type the entries on Form W-2 using black ink. Do not use script type, inverted font, italics, or dual case alpha characters. Copy A is read by machines. The use of red ink or printing hinders report data entry processing by SSA. It is important that entries in the boxes do not cross one or more of the vertical or horizontal lines that separate the boxes. Please do not erase, whiteout, or strike over an entry. **Make all dollar entries without the dollar sign and comma but with the decimal point**

**(00000.00). Show the cents portion of the money amounts.**

**Send the whole Copy A page of Form W-2 to SSA** even if one of the forms is blank or void. Do not staple Forms W-2 together or to Form W-3. Also, if possible, please file Forms W-2 either alphabetically by employees' last names or numerically by employees' SSNs. This will help SSA locate specific forms.

**Calendar year basis.** The entries on Form W-2 must be based on a calendar year. Use Form W-2 for the correct tax year.

**Taxpayer identification numbers.** We use social security numbers (SSNs) to check the payments you report against the amounts shown on the employees' tax returns. SSNs are also used to record employee earnings for future social security and Medicare benefits.

**When you prepare Form W-2, be sure to show the correct SSN for each employee on the form or on magnetic media.**

Employees use an **employer identification number (EIN)** (00-0000000). Employees use an SSN (000-00-0000). When you list a number, please separate the nine digits properly to show the kind of number.

**Alien residence status change.** If your employee is given a new social security card following an adjustment to his or her alien residence status that shows a different name or SSN, correct your records for 1998 and show the new information on the 1998 Form W-2. If you filed Form W-2 for the same employee in prior years under the old name and SSN, file **Form W-2c**, Corrected Wage and Tax Statement, to correct the name and number. (See **Corrections** below.)

Use a separate Form W-2c to correct each prior year. Advise the employee to contact the local SSA office about 9 months after you file Form W-2c to ensure that his or her record has been updated.

**Corrections.** Use Form W-2c to correct errors (such as incorrect name, SSN, or amount) on a previously filed Form W-2. Send **Form W-3c**, Transmittal of Corrected Wage and Tax Statements, with Forms W-2c unless you are only correcting a name, address, or SSN. Instructions are on the forms. Also, see **Changes To Note** on page 1 for information on correcting an employee's address.

If you discover an error on Form W-2 after you issue it to you employee but before you send it to SSA, mark the "**Void**" box at the top of the form on Copy A. Prepare a new Copy A with the correct information, and send it to SSA. Write "Corrected" on the new employee's 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 SSA. The "Void" form will not be processed.)

If you are making an adjustment in 1998 to correct social security and Medicare taxes for a prior year, you must file **Form 941c**, Supporting Statement To Correct Information, with your **Form 941**, Employer's Quarterly Federal Tax Return, or **Form 943**, Employer's Annual Tax Return for Agricultural Employees, in the return period you find the error, and issue the employee a Form W-2c for the prior year. If you are correcting social security or Medicare wages or tips, also file the entire first page of Forms W-2c and W-3c with SSA to correct the social security records.

**Lost Form W-2 – reissued statement.** If an employee loses a Form W-2, write "REISSUED STATEMENT" on the new copy, **but do not send Copy A of the reissued Form W-2 to SSA.** You may give a reissued Form W-2 to an employee on the IRS official form or on a privately printed substitute form (see **Substitute forms** on page 1).

**Multiple forms.** If necessary, you can issue more than one Form W-2 to an employee. For example, you may need to report more than

three coded items in box 13 or you may want to report other compensation on a second form. If you issue a second Form W-2, complete boxes b, c, d, and e with the same information as on the first Form W-2. Show any additional items that were not included on the first Form W-2 in the appropriate boxes.

**Do not** report the same Federal tax data to SSA on more than one Copy A.

## Special Reporting Situations

**Agent reporting.** Generally, an agent that has an approved **Form(s) 2678**, Employer Appointment of Agent, should enter his or her name as the employer in box c of Form W-2, and file one Form W-2. However, if the agent (1) is acting as an agent for two or more employers or is an employer and is acting as an agent for another employer and (2) pays social security wages in excess of the wage base to an individual, special reporting for payments to that individual is needed.

If an agent meets the requirements in items (1) and (2) above, the agent must file separate Forms W-2 reflecting the wages paid by each employer. On each Form W-2 filed as an agent, the agent should enter the following in box c:

(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. In addition, the employer's EIN should be shown in box h of Form W-3. Get **Pub. 1271** (Rev. Proc. 70-6) and **Pub. 1272** (Rev. Proc. 84-33), for procedures to be followed in applying to be an agent.

**Repayments.** If an employee repays you for wages received in error, do not offset the repayments against current year wages unless the repayments are for amounts received in error in the current year, but related to a prior year or years, 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 them account for such repayments on their Federal income tax returns.

If the repayment was for a prior year, you must file Form W-2c with SSA to correct social security and Medicare wages and taxes. Do not correct wages (box 1) on Form W-2c for the amount paid in error. Report an adjustment on Form 941 for the quarter during which the repayment was made to recover the social security and Medicare taxes. Instead of making an adjustment on Form 941, you may file a claim for these taxes using **Form 843**, Claim for Refund and Request for Abatement. You may not make an adjustment for income tax withholding because the wages were paid during a prior year.

**Note:** Please tell your employee that the wages paid in error in a prior year remain taxable to the employee 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.

**Employee's 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 the amount of the payments as wages, subject to income tax withholding, and social security, Medicare, and Federal unemployment taxes. This increase in your employee's wages for your payment of the employee's social security and Medicare taxes is also subject to employee social security and Medicare taxes. This again

increases the amount of the additional taxes you must pay. 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 Pub. 15-A.

**Note:** 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. However, the wage increase due to the tax payments is not subject to social security and Medicare taxes as discussed above.

**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.

If you made the **payment 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 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 estate or beneficiary on Form 1099-MISC. If you do not have the TIN of the estate or beneficiary leave that box blank.

**Example.** Before Employee A's death on June 15, 1998, 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 was paid to A's estate on July 20, 1998. 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 d** – Employee A's SSN

**Box e** – Employee A's name

**Box f** – Employee A's address

**Box 1** – 10000.00 (not including the \$3,000 of accrued wages and vacation pay)

**Box 2** – 1500.00

**Box 3** – 13000.00 (includes the \$3,000 of accrued wages and vacation pay)

**Box 4** – 806.00

**Box 5** – 13000.00

**Box 6** – 188.50

**Box 15** – Mark the "Deceased" box

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 if reported.)

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 **not** be shown on Form W-2. However, the employer would still file Form 1099-MISC.

### 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 required to be reported on Form W-2. However, if you pay a per diem or mileage allowance, and the amount paid 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 (i.e., the nontaxable portion) in box 13 using code **L**.

● Payments made under a nonaccountable plan are reportable as wages on Form W-2 and are subject to 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 Circular E.

**Group-term life insurance.** If you paid for group-term life insurance in excess of \$50,000 for an employee or a former employee, you must report the amount determined by using the table in Pub. 15-A in boxes 1, 3, and 5 of Form W-2. Also, show the amount in box 13 with code **C**. For employees, you must withhold social security and Medicare taxes, but not income tax. Former employees must pay the employee part of social security and Medicare taxes on premiums for 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 13 of Form W-2.

**Medical savings account (MSA).** An employer's contribution to an employee's MSA is not subject to 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. 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, social security and Medicare taxes (or railroad retirement tax, if applicable), and must be reported in boxes 1, 3, and 5.

You must report all employer contributions to an MSA in box 13 of Form W-2. See the instructions for Box 13, Code R. Employer contributions to an MSA that are not excludable from the income of the employee also must be reported in box 1.

An employee's contributions to an MSA are includable in income as wages and are subject to income tax withholding, and social security and Medicare taxes (or railroad retirement tax, if applicable). Employee contributions are deductible, within limits, on the employee's Form 1040.

See Notice 96-53, 1996-2 C.B. 219 and **Pub. 969**, Medical Savings Accounts (MSAs), for more information on MSAs.

**SIMPLE retirement account.** An employee's salary reduction contributions to a SIMPLE (savings incentive match plan for employees) retirement account are not subject to 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. An employee's total contribution also must be included in box 13 with code **D** or **S**.

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

See Notice 98-4, 1998-2 I.R.B. 25, for more information on SIMPLE retirement accounts.

**Adoption benefits.** Amounts paid or expenses incurred by an employer for qualified adoption expenses under an adoption assistance program are not subject to 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. Also, the total amount must be reported in box 13 with code T.

See Notice 97-9, 1997-1 C.B. 365 for more information on adoption benefits. Tell your employees to get **Pub. 968**, Tax Benefits for Adoption.

**Sick pay.** If you had employees who received sick pay in 1998 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. See **Sick Pay Reporting** in Pub. 15-A for specific instructions.

**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). (See Pub. 15-A and **Pub. 520**, Scholarships and Fellowships, for more information.) Such amounts are subject to 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** in section 15 of Circular E.

**Fringe benefits.** Include all taxable fringe benefits in box 1 as wages, tips, and other compensation and, if applicable, in boxes 3 and 5 as social security and Medicare wages. Show the total value of the fringe benefits in box 12. You may issue a separate statement or another Form W-2 showing only the value of the fringe benefits in boxes 1, 3, 5, and a note in box 12. The amounts reported in boxes 13 and/or 10 should not be included in the amount reported in box 12. 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 12 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. See **Fringe Benefits** in **Pub. 535**, Business Expenses.

**Note:** 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. 535**.

**Golden parachute payments.** Include these payments in boxes 1, 3, and 5. Withhold income, social security, and Medicare taxes as usual and report them in boxes 2, 4, and 6, respectively. Excess 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 withholding. Also report it in box 13 with code K. For additional information, see sections 280G and 4999.

**Government employers.** Federal, state, and local agencies have two options for reporting their employees' wages that are subject to only Medicare taxes for part of the year and full social security and Medicare taxes for part of the year. **Option one** (which SSA prefers) is to file a single Form W-2 with the Medicare only

wages and the social security and Medicare wages combined. The Form W-3 must have the "941" box marked in box b.

**Option two** is to file two Forms W-2 and two Forms W-3. File one Form W-2 for wages subject only to Medicare tax. Be sure to check the "Medicare govt. emp." box in box b of Form W-3. File the second Form W-2 for wages subject to both social security and Medicare taxes with the "941" box checked in box b of Form W-3.

**Railroad employers.** Railroad employers must file Form W-2 to report their employees' wages and income tax withholding. Reporting on magnetic media may be required; see **Magnetic media reporting** on page 2.

If an employee is covered by social security and Medicare, Form W-2 must show the social security and Medicare wages and the amounts withheld for social security and Medicare taxes. The Form W-3 used to transmit these Forms W-2 must have the "941" box marked in box b.

You must report the Tier I and Tier 2 taxes withheld in box 14 of Form W-2. Label them "Tier I tax" and "Tier 2 tax." (**Note:** An employer's contribution to an employee's medical savings account is not subject to railroad retirement taxes if it is reasonable to believe at the time of payment that the contribution will be excludable from the employee's gross income.) Boxes 3, 4, 5, 6, and 7 apply only to covered social security and Medicare employees and are not to be used to report railroad retirement taxes. The Form W-3 used to transmit these Forms W-2 must have the "CT-1" box checked in box b.

If you use a substitute form for your employees, get **Pub. 1141**.

## Penalties

The following penalties generally apply to the person required to file Form W-2. The penalties apply to paper filers as well as magnetic media/electronic filers.

**Note:** 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 filed correctly and on time.

**Failure to file correct information returns by the due date.** If you fail to file a correct Form W-2 by the due date and cannot show reasonable cause, you may be subject to a penalty. The penalty applies if you:

- Fail to file timely,
- Fail to include all information required to be shown on Form W-2,
- Include incorrect information on Form W-2,
- File on paper when you were required to file on magnetic media,
- Report an incorrect TIN,
- Fail to report a TIN, or
- Fail to file paper Forms W-2 that are machine readable.

The amount of the penalty is based on when you file the correct Form W-2. The penalty is:

- \$15 per Form W-2 if you correctly file within 30 days (by March 30); maximum penalty \$75,000 per year (\$25,000 for small businesses, defined later).
- \$30 per Form W-2 if you correctly file more than 30 days after the due date but by August 1; maximum penalty \$150,000 per year (\$50,000 for small businesses).
- \$50 per Form W-2 if you file after August 1, or you do not file required Forms W-2; maximum penalty \$250,000 per year (\$100,000 for small businesses).

**Exceptions.** If you meet any of the following exceptions you will not be liable for the penalty:

- The penalty will not apply to any failure that you can show was due to **reasonable cause** and not to willful neglect.

- An **inconsequential error or omission** is not considered a failure to include correct information. An inconsequential error or omission does not prevent or hinder the IRS from processing the Form W-2, correlating the information required to be shown on the form with the information shown on the payee's tax return, or from otherwise putting the form to its intended use. Errors and omissions that are never inconsequential are those relating to:

1. A TIN,
2. A payee's surname, and
3. Any money amounts.

- **De minimis rule for corrections.** Even though you cannot show reasonable cause, the penalty for failure to file correct Forms W-2 will not apply to a certain number of returns if you:

1. Filed those Forms W-2,
2. Either failed to include all the information required on the form or you included incorrect information, and
3. You filed corrections by August 1.

If you meet all the conditions in 1, 2, and 3, the penalty for filing incorrect Forms W-2 (but not for filing late) will not apply to the greater of 10 Forms W-2 or 1/2 of 1% of the total number of Forms W-2 you are required to file for the calendar year.

**Lower maximum penalties for small businesses.** For purposes of the lower maximum penalties shown in parentheses above, you are a small business if your average annual gross receipts for the 3 most recent tax years (or for the period you were in existence, if shorter) ending before the calendar year in which the Forms W-2 were due are \$5 million or less.

**Intentional disregard of filing requirements.** If any failure to file a correct Form W-2 is due to intentional disregard of the filing or correct information requirements, the penalty is at least \$100 per Form W-2 with no maximum penalty.

**Failure to furnish correct payee statements.** If you fail to provide correct payee statements (Forms W-2) to your employees and you cannot show reasonable cause, you may be subject to a penalty. The penalty applies if you fail to provide the statement by January 31, you fail to include all information required to be shown on the statement, or you include incorrect information on the statement.

The penalty is \$50 per statement, no matter when the correct statement is furnished, with a maximum of \$100,000 per year. The penalty is not reduced for furnishing a correct statement by August 1.

**Exception.** An inconsequential error or omission is not considered a failure to include correct information. An inconsequential error or omission cannot reasonably be expected to prevent or hinder the payee from timely receiving correct information and reporting it on his or her income tax return or from otherwise putting the statement to its intended use. Errors and omissions that are never inconsequential are those relating to:

1. A dollar amount,
2. A payee's address, and
3. The appropriate form for the information provided (i.e., whether the form is an acceptable substitute for the official IRS form).

**Intentional disregard of payee statement requirements.** If any failure to provide a correct payee statement (Form W-2) is due to intentional disregard of the requirements to furnish a correct payee statement, the penalty is at least \$100 per Form W-2 with no maximum penalty.

**Civil damages for fraudulent filing of information returns.** If you willfully file a fraudulent Form W-2 for payments you claim you made to another person, that person may be able to sue you for damages. You may have to pay \$5,000 or more.

## Specific Instructions

**Box a—Control number.** You may use this box to identify individual Forms W-2. You do not have to use this box.

**Void.** Check this box when an error is made on Form W-2 and you are voiding it because you are going to complete a new Form W-2. Be careful **not to include** any amounts shown on Void forms in the totals you enter on Form W-3. See **Corrections** on page 2.

**Box b—Employer identification number.** Show the EIN assigned to you by the IRS (00-0000000). This should be the same number that you used on your Federal employment tax returns (Form 941 or 943). Do not use a prior owner's EIN. If you do not have an EIN when filing Forms W-2, enter "Applied For" in box b, not your SSN. You can get an EIN by filing **Form SS-4**, Application for Employer Identification Number. See **Agent reporting** on page 3.

**Box c—Employer's name, address, and ZIP code.** This entry should be the same as shown on your Form 941 or 943. See **Agent reporting** on page 3.

**Box d—Employee's social security number.** Enter the number shown on the employee's social security card. If the employee does not have a card, he or she should apply for one by completing **Form SS-5**, Application for a Social Security Card. If the employee has applied for a card but the number is not received in time for filing, enter "Applied For" in box d.

Ask the employee to inform you of the number and the exact way his/her name is printed on the card when it is received. Then correct your previous report by filing **Form W-2c** showing the employee's SSN. Also show the employee's name as shown on the card. If the employee needs to change his or her name from that shown on the card, the employee should call SSA at 1-800-772-1213.

**Box e—Employee's name.** Enter the name as shown on the employee's social security card (first, middle initial, last). If the name does not fit, you may show first name initial, middle initial, and last name. If the name has changed, have the employee get a corrected card from any SSA office. Use the name on the original card until you see the corrected one. Do not show titles or academic degrees at the end of the employee's name.

**Box f—Employee's address and ZIP code.** This box is combined with box e (Employee's name) on all copies except Copy A. Include in the address the number, street, apt. or suite number, or P.O. Box number if mail is not delivered to a street address. For a foreign address, give the information in the following order: city, province or state, postal code, and the name of the country. Do not abbreviate the name of the country.

**Box 1—Wages, tips, other compensation.** Show the total wages, tips, and other compensation, before any payroll deductions, you paid your employee during the year. Do not include elective deferrals, except section 501(c)(18) contributions. Include the following:

1. Total wages, prizes, and awards paid to employees during the year. For example, if the employee worked from December 21, 1998, through January 3, 1999, and the wages for that period were paid on January 5, 1999, include those wages on the 1999 Form W-2.

2. Total noncash payments, including certain fringe benefits. See **Fringe Benefits** in Pub. 535 for information.

3. Total **tips** reported by employee to employer (not allocated tips).

4. Certain employee business expense reimbursements (see **Employee business expense reimbursements** on page 3).

5. The cost of **accident and health insurance** premiums for 2% or more shareholder-employees paid by an S corporation.

6. Taxable benefits from a **section 125 (cafeteria) plan** (i.e., employee chooses cash).

7. Employee contributions to an **MSA**.

8. Employer contributions to an **MSA** if includible in the income of the employee. See **Medical savings account (MSA)** on page 3.

9. Employer contributions for **qualified long-term care services** to the extent that such coverage is provided through a flexible spending or similar arrangement.

10. Group-term life insurance in excess of \$50,000. See **Group-term life insurance** on page 3.

11. Unless excludable as explained under **Educational assistance programs** on page 1, payments for non-job-related educational expenses or for payments under a nonaccountable plan. See Pub. 508.

12. The amount includible as wages because you paid your employee's share of taxes, see **Employee's taxes paid by employer** on page 3.

13. All other **compensation**, including certain scholarship and fellowship grants (see the discussion on page 4). Other compensation is amounts that you pay your employee from which Federal income tax is not withheld. You may show other compensation on a separate Form W-2. See **Multiple forms** on page 2.

14. Distributions to an employee or former employee from a nonqualified deferred compensation plan or a section 457 plan.

15. Payments to statutory employees that are subject to social security and Medicare taxes but not subject to Federal income tax withholding must be shown in box 1 as other compensation. See Box 15, Statutory employee, on page 7.

**Box 2—Federal income tax withheld.** Show the amount of Federal income tax withheld from the employee's wages for the year (do not reduce by any advance EIC payments made to the employee). Also include the 20% excise tax withheld on excess parachute payments. See **Golden parachute payments** on page 4.

**Box 3—Social security wages.** Show the total wages paid (before payroll deductions) subject to employee social security tax but **not** including **social security tips and allocated tips**. (See **Box 7** and **Box 8** later.) Generally, noncash payments are considered wages. Include **employee business expense reimbursements** reported in box 1. If you paid the employee's portion of social security and Medicare taxes rather than deducting them from wages, see **Employee's taxes paid by employer**, on page 3. The total of boxes 3 and 7 should not be more than \$68,400 (1998 maximum social security wage base).

Also, include elective deferrals to certain qualified cash or **deferred compensation** arrangements and to retirement arrangements described in box 13, codes D, E, F, G, and S, even though the deferrals are not includible in box 1. Amounts deferred under a **nonqualified** or **section 457 plan** must be included in boxes 3 and/or 5 as social security and/or Medicare wages as of the later of when the services giving rise to the deferral are performed or when there is no substantial forfeiture risk of the rights to the deferred amount. Include elective and nonelective deferrals for purposes of section 457 plans.

Also include in box 3:

- Cost of group-term life insurance over \$50,000 that is taxable. See **Group-term life insurance** on page 3.
- Cost of accident and health insurance premiums for 2% or more shareholder-employees paid by an S corporation, but only if not excludable under section 3121(a)(2)(B).
- Employee and nonexcludable employer contributions to an MSA. See **Medical savings account (MSA)** on page 3.
- Employee contributions to a SIMPLE retirement account. See **SIMPLE retirement account** on page 3.
- Adoption benefits. See **Adoption benefits** on page 4.

**Clergy and religious workers.** For certain members of the clergy and religious workers who are not subject to social security tax as employees, boxes 3 and 5 should be left blank. 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) of Pub. 15-A.

**Box 4—Social security tax withheld.** Show the total employee social security tax (not your share) withheld, including social security tax on tips. If you paid your employee's share, see **Employee's taxes paid by employer** on page 3. The amount should not exceed \$4,240.80 (\$68,400 × 6.2%). Include only taxes withheld (or paid by you for the employee) for 1998 wages. Do not reduce this amount by any advance EIC payments made to the employee.

**Box 5—Medicare wages and tips.** The wages and tips subject to Medicare tax are the same as those subject to social security tax (boxes 3 and 7), except that there is no wage base limit for Medicare tax. Enter the total Medicare wages and tips in box 5. Be sure to enter tips the employee reported even if you did not have enough employee funds to collect the Medicare tax for those tips. If you paid your employee's share of taxes, see **Employee's taxes paid by employer** on page 3.

Report in this box:

- Cost of group-term life insurance coverage over \$50,000 that is taxable. See **Group-term life insurance** on page 3.
- Cost of accident and health insurance premiums for 2% or more shareholder-employees paid by an S corporation, but only if not excludable under section 3121(a)(2)(B).
- Employee and nonexcludable employer contributions to an MSA. See **Medical savings account (MSA)** on page 3.
- Employee contributions to a SIMPLE retirement account. See **SIMPLE retirement account** on page 3.
- Adoption benefits. See **Adoption benefits** on page 4.

Also, see **Box 3** for reporting deferrals from qualified, nonqualified, and section 457 plans, and other items in box 5.

If you are a Federal, state, or local agency with employees paying only the 1.45% Medicare tax, enter the Medicare wages in this box. See **Government employers** on page 4.

**Example of how to report social security and Medicare wages.** You paid your employee \$140,000 in wages. Enter in box 3 (social security wages) 68400.00, but enter in box 5 (Medicare wages and tips) 140000.00. There is no limit on the amount reported in box 5. If the amount of wages paid was \$68,400 or less, the amounts entered in boxes 3 and 5 would be the same.

**Box 6—Medicare tax withheld.** Enter the total employee Medicare tax (not your share) withheld. Include only taxes withheld for 1998 wages. Do not reduce this amount by any



advance EIC payments made to the employee. If you paid your employee's share of the taxes, see **Employee's taxes paid by employer** on page 3.

**Box 7—Social security tips.** Show the amount the employee reported even if you did not have enough employee funds to collect the social security tax for the tips. The total of boxes 3 and 7 should not be more than \$68,400.00 (the maximum social security wage base for 1998). Report all tips in box 1 along with wages and other compensation.

**Box 8—Allocated tips.** If you are a large food or beverage establishment, show the amount of tips allocated to the employee. (See the **Instructions for Form 8027**, Employer's Annual Information Return of Tip Income and Allocated Tips.) **Do not** include this amount in boxes 1, 3, 5, or 7.

**Box 9—Advance EIC payment.** Show the total amount paid to the employee as advance earned income credit (EIC) payments.

**Box 10—Dependent care benefits.** Show the total amount of dependent care benefits under a dependent care assistance program, (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided or employer-sponsored day-care facilities and amounts paid or incurred in a section 125 (cafeteria) plan. Report all amounts paid or incurred including those in excess of the \$5,000 exclusion. This can include (a) the fair market value of benefits provided in-kind by the employer; (b) an amount paid directly to a day-care facility by the employer or reimbursed to the employee to subsidize the benefit; or (c) benefits from the pre-tax contributions made by the employee to a section 125 dependent care flexible spending account. Include any amounts over \$5,000 in boxes 1, 3, and 5. For more information, see Pubs. 15-A and 535.

**Box 11—Nonqualified plans.** Show the amount of **distributions** to an employee from a nonqualified plan or a section 457 plan. If you did not make distributions this year, show the amount of **deferrals** (plus earnings) under a nonqualified or section 457 plan that became taxable for social security and Medicare taxes during the year (but were for prior year services) because the deferred amounts were no longer subject to a substantial risk of forfeiture. **Do not** report in box 11 deferrals that are included in boxes 3 and/or 5 that are for current year services.

**Note:** If you made distributions and are also reporting deferrals in box 3 and/or 5, do not complete box 11. See **Pub. 957**, Reporting Back Pay and Special Wage Payments to the Social Security Administration, and **Form SSA-131**, Employer Report of Special Wage Payments, for instructions on reporting these and other kinds of compensation earned in prior years. However, **do not file Form SSA-131** if contributions and distributions occur in the same year **and** the employee will **not** be age 62 or older by the end of that year.

The purpose of box 11 is for SSA to determine if any portion of the amount reported in box 1 or boxes 3 and/or 5 was earned in a prior year. SSA uses this information to verify that they have properly applied the social security earnings test and paid the correct amount of benefits.

Unlike tax-qualified plans, nonqualified deferred compensation plans do not meet the qualification requirements for tax-favored status. Nonqualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation. Accordingly, welfare benefit plans, stock option plans, and plans providing dismissal pay, termination pay, or early retirement pay are **not** nonqualified plans.

State and local agencies must separately identify section 457 distributions in this box by entering code **G** followed by a space, and then the dollar amount. However, if you are reporting a distribution from both a nonqualified plan and a section 457 plan, report it as a single amount in this box, and do not enter code **G**.

Report distributions from nonqualified or section 457 plans to beneficiaries of deceased employees on **Form 1099-R**, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., not on Form W-2.

**Military employers** must report military retirement payments on Form 1099-R.

**Box 12—Benefits included in box 1.** Show the total value of the taxable **fringe benefits** included in box 1. Do not include amounts reported in boxes 10 and/or 13. See **Fringe benefits** on page 4.

**Box 13.** Complete and code this box for all items described below. Do not report in box 13 any items that are not listed as codes A – T. Do not report in box 13 section 414(h)(2) contributions (relating to certain state or local government plans). Instead, use box 14 for these items and any other information you wish to give your employee. For example, union dues and uniform payments may be reported in box 14.

**Note:** On Copy A (Form W-2), do not enter more than three items in box 13. If more than three items need to be reported in box 13, use a separate Form W-2 to report the additional items (but enter no more than three items on each Copy A (Form W-2)). On all other copies of Form W-2, you may enter more than three items in box 13. See **Multiple forms** on page 2.

Use the IRS code designated below for the item you are entering followed by the dollar amount for that item. Even if only one item is entered, you must use the IRS code designated for that item. Enter the code using a capital letter. Leave at least one space blank after the code and enter the dollar amount on the same line. Use decimal points but not dollar signs or commas. For example, you are reporting \$5,300.00 to a section 401(k) plan. The entry in box 13 would be: **D 5300.00** and not A 5300.00 even though it is the first or only entry to go in this box.

See the **Reference Guide for Box 13 Codes** on page 8. See the detailed instructions below for each code.

**Code A—Uncollected social security tax on tips.** Show the employee social security tax on all the employee's tips that you could **not** collect because the employee did not have enough funds from which to deduct it. Do not include this amount in box 4.

**Code B—Uncollected Medicare tax on tips.** Show the employee Medicare tax on tips that you could **not** collect because the employee did not have enough funds from which to deduct it. Do not include this amount in box 6.

**Code C—Cost of group-term life insurance over \$50,000.** Show the taxable amount of the cost of group-term life insurance coverage over \$50,000 provided to your employee (including a former employee). See **Group-term life insurance** on page 3. Also, include it in boxes 1, 3, and 5.

**Codes D through H and S.** Use these codes to show the amount of deferrals made to the plans listed. Do not report amounts for other types of plans. See below for an example of reporting an elective deferral to a section 401(k) plan.

The amount reported as an elective deferral is only the portion of the employee's salary (or other compensation) that he or she did not receive because of the deferral. Only elective

deferrals should be reported in box 13 for all coded plans, except, when using code G for section 457(b) plans, include both elective and nonelective deferrals.

The following are not elective deferrals and may be reported in box 14 but not in box 13:

- Nonelective contributions by an employer on behalf of an employee.
- After-tax contributions, such as voluntary contributions to a pension plan that are deducted from an employee's pay after all other deductions.
- Required employee contributions.
- Employer matching contributions.

**Note:** If any elective deferrals, salary reduction amounts, or nonelective contributions to a section 457(b) plan during the year are make-up amounts under the **Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)** for a prior year, you must enter the prior year contributions separately. You must enter the code, the year, and the amount. For example, elective deferrals to a section 401(k) plan are reported in box 13 as follows: D–1996–2250.00, D–1997–1250.00. The 1998 contribution does not require a year designation; enter it as D 7000.00.

**Code D—Elective deferrals to a section 401(k) cash or deferred arrangement.** Also, show the amount deferred under a SIMPLE retirement account that is part of a section 401(k) arrangement.

**Code E—Elective deferrals under a section 403(b) salary reduction agreement.**

**Code F—Elective deferrals under a section 408(k)(6) salary reduction SEP.**

**Code G—Elective and nonelective deferrals to a section 457(b) deferred compensation plan** for employees of state or local governments or tax-exempt organizations. Do not report section 457(f) amounts or amounts deferred under section 457(b) that are subject to a substantial risk of forfeiture.  
**Note:** The section 457 dollar limitation should be reduced by deferrals to certain other deferred compensation plans. See section 457(c)(2).

**Code H—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan.** Be sure to include this amount in box 1 as wages. The employee will deduct the amount on his or her Form 1040.

**Example of reporting elective deferral to a section 401(k) plan.** For 1998, Employee A elected to defer \$10,300 to a section 401(k) plan and made a voluntary after-tax contribution of \$600. In addition, the employer, on A's behalf, made a qualified nonelective contribution of \$1,000 to the plan and a nonelective profit-sharing employer contribution of \$2,000.

The total elective deferral of \$10,300 is reported in box 13 with code D (D 10300.00). Even though the 1998 limit for elective deferrals is \$10,000.00, the employer must report the total amount of \$10,300.00 in box 13. The excess is not reported in box 1.

The \$600 voluntary after-tax contribution may be reported in box 14 (this is optional). The \$1,000 nonelective contribution and the \$2,000 nonelective profit-sharing employer contribution are not reported on Form W-2.

Check "Deferred compensation" in box 15.

**Code J—Nontaxable sick pay.** Show any sick pay **not** includible in income because the employee contributed to the sick pay plan. If you issue a separate Form W-2 for sick pay, enter "Sick pay" in box 13.

**Code K—20% excise tax on excess golden parachute payments.** If you made excess "golden parachute" payments to certain key corporate employees, report the 20% excise tax withheld on these payments. If the excess

payments are considered wages, also report the 20% excise tax as income tax withheld in box 2.

**Code L—Substantiated employee business expense reimbursements.** Report only the amount treated as substantiated, i.e., the nontaxable portion. Use this code only if you reimbursed your employee for employee business expenses using a per diem or mileage allowance, and the amount you reimbursed exceeds the amount treated as substantiated under IRS rules. (See **Employee business expense reimbursements** on page 3.) In box 1, include the portion of the reimbursement that is more than the amount treated as substantiated.

**Do not** include any per diem or mileage allowance reimbursements for employee business expenses in box 13 if the total reimbursement is less than or equal to the amount treated as substantiated.

**Code M—Uncollected social security tax on the cost of group-term life insurance coverage over \$50,000 for former employees.** If you provided your former employees (including retirees) more than \$50,000 of group-term life insurance coverage for periods during which an employment relationship no longer exists, enter the amount of uncollected social security tax on the coverage in box 13. Also see **Group-term life insurance** on page 3.

**Code N—Uncollected Medicare tax on the cost of group-term life insurance coverage over \$50,000 for former employees.** If you provided your former employees (including retirees) more than \$50,000 of group-term life insurance coverage for periods during which an employment relationship no longer exists, enter the amount of uncollected Medicare tax on the coverage in box 13. Also see **Group-term life insurance** on page 3.

**Code P—Excludable moving expense reimbursements paid directly to an employee.** See **Form 4782 eliminated** on page 1.

**Code Q—Military employee basic quarters, subsistence, and combat zone compensation.** If you are a military employer and provide your employee with basic quarters, subsistence allowances, or combat zone compensation, report it in box 13.

**Code R—Employer contributions to a medical savings account (MSA).** If you make contributions to an MSA for your employee, show all employer contributions in box 13 with code R. See **Medical savings account (MSA)** on page 3.

**Code S—Employee salary reduction contributions to a section 408(p) SIMPLE.** Show the amount deferred under a section 408(p) salary reduction SIMPLE retirement account. However, if the SIMPLE is part of a section 401(k) arrangement, use code D. If you are reporting prior year contributions under USERRA, see the **Note** under **Codes D through H and S** on page 6.

**Code T—Adoption benefits.** Show the total amount paid or reimbursed by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program. Also include adoption benefits paid or reimbursed from the pre-tax contributions made by the employee to a section 125 (cafeteria) plan. However, do not include adoption benefits forfeited from a section 125 (cafeteria) plan. Report all amounts including those in excess of the \$5,000 or \$6,000 exclusion.

**Box 14—Other.** You may use this box for any other information you want to give your employee. Please label each item. Examples are union dues, health insurance premiums deducted, nontaxable income, voluntary after-tax contributions, educational assistance payments, or a member of the clergy's parsonage allowance and utilities. If you are reporting prior year contributions under USERRA (see the **Note** under **Codes D through H and S** on page 6 and **USERRA make-up amounts to a pension plan** on page 1), you may report in box 14 make-up amounts for nonelective employer contributions, voluntary after-tax contributions, required employee contributions, and employer-matching contributions. Report such amounts separately for each year.


**Box 15.** Check the boxes that apply.

• **Statutory employee.** Check this box for statutory employees whose earnings are subject to social security and Medicare taxes but **not** subject to Federal income tax withholding. Do not check this box for common-law employees. The following four categories of workers who are independent contractors under the common-law rules are treated by statute as employees. They are called statutory employees.

1. A driver who distributes beverages (other than milk), or meat, vegetable, fruit, or bakery products, or who picks up and delivers laundry or dry cleaning, if the driver is your agent or is paid on commission.

2. A full-time life insurance sales agent whose principal business activity is selling life insurance or annuity contracts, or both, primarily for one life insurance company.

3. An individual who works at home on materials or goods that you supply and that must be returned to you or to a person you name, if you also furnish specifications for the work to be done.

4. A full-time traveling or city salesperson who works on your behalf and turns in orders to you from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments. The goods  must be merchandise for resale or supplies for use in the buyer's business operation. The work performed for you must be the salesperson's principal business activity.

See **Pub. 15-A** for details on statutory employees and common-law employees.

• **Deceased.** Check this box if the employee died during 1998. See **Deceased employee's wages** on page 3.

• **Pension plan.** Check this box if the employee was an active participant (for any part of the year) in any of the following:

1. A qualified plan described in section 401(a) (including a 401(k) plan).

2. An annuity plan described in section 403(a).

3. An annuity contract or custodial account described in section 403(b).

4. A simplified employee pension (SEP) plan described in section 408(k).

5. A SIMPLE retirement account described in section 408(p).

6. A trust described in section 501(c)(18).

7. A plan for Federal, state, or local government employees or by an agency or instrumentality thereof (other than a section 457 plan).

See **Pub. 1602**, General Rules for Individual Retirement Arrangements Under the Tax Reform Act of 1986, for information on who qualifies as an "active participant." **Do not**

check this box for contributions made to a nonqualified or section 457 plan.

Also check the deferred compensation box. See **Deferred compensation** below.

• **Legal representative.** Check this box when the employee's name is the only name shown but is shown as a trust account (e.g., Jane Doe Trust), or another name is shown in addition to the employee's name and the other person or business is acting on behalf of the employee.

Representatives are identified by words such as "custodian," "parent," or "attorney;" sometimes the employee is identified as a minor, child, etc. **Do not** check this box if the address is in care of someone other than the employee (e.g., Jane Doe, c/o Shelby Smith).

• **Deferred compensation.** Check this box if the employee has made an elective deferral to a section 401(k), 403(b), 408(k)(6), 408(p), or 501(c)(18)(D) retirement plan. Check this box if an elective or nonelective deferral was made to a section 457(b) plan. See also, **Codes D–H and S** instructions under **Box 13**.

**Note: Do not check this box for nonqualified deferred compensation plans.**

**Boxes 16 through 21—State and local income tax information.** Use these boxes to report state and local income tax information. Enter the two-letter abbreviation of the name of the state. The employer's state I.D. numbers are assigned by the individual states. The state and local information boxes can be used to report wages and taxes for two states and two localities. Keep each state's and locality's information separated by the broken line. If you need to report information for more than two states or localities, file a second Form W-2. See **Multiple forms** on page 2.

**Privacy Act and Paperwork Reduction Act Notice.** We ask for the information on **Forms W-2 and W-3 to carry out the Internal Revenue laws of the United States.** We need it to figure and collect the right amount of tax. **Section 6051 and its regulations require** you to furnish wage and tax statements to employees and to the Social Security Administration. **Section 6109 requires** you to provide your employer identification number. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. If you fail to provide this information in a timely manner, you may be subject to penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file these forms will vary depending on individual circumstances. The estimated average times are: Form W-2 – 32 minutes, and Form W-3 – 28 minutes. If you have comments concerning the accuracy of these time estimates or suggestions for making these forms simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send these tax forms to this address. Instead, see **Where to file Copy A** on page 2.

## Reference Guide for Box 13 Codes

<b>A</b>	Uncollected social security tax on tips	<b>K</b>	20% excise tax on excess golden parachute payments
<b>B</b>	Uncollected Medicare tax on tips	<b>L</b>	Substantiated employee business expense reimbursements (Federal rate)
<b>C</b>	Cost of group-term life insurance over \$50,000	<b>M</b>	Uncollected social security tax on cost of group-term life insurance coverage over \$50,000 (for former employees)
<b>D</b>	Elective deferrals to a section 401(k) cash or deferred arrangement (including a SIMPLE 401(k) arrangement)	<b>N</b>	Uncollected Medicare tax on cost of group-term life insurance coverage over \$50,000 (for former employees)
<b>E</b>	Elective deferrals under a section 403(b) salary reduction agreement	<b>P</b>	Excludable moving expense reimbursements
<b>F</b>	Elective deferrals under a section 408(k)(6) salary reduction SEP	<b>Q</b>	Military employee basic quarters, subsistence, and combat zone compensation
<b>G</b>	Elective and nonelective deferrals to a section 457(b) deferred compensation plan (state and local government and tax-exempt employers)	<b>R</b>	Employer contributions to a medical savings account (MSA)
<b>H</b>	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan	<b>S</b>	Employee salary reduction contributions to a section 408(p) SIMPLE
<b>J</b>	Nontaxable sick pay	<b>T</b>	Adoption benefits

See box 13 instructions for information.

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