

Deferring Employee Social Security Payroll Taxes

On August 8, 2020, President Trump signed a Memorandum directing the Treasury Secretary to defer the withholding, deposit, and payment of employee Social Security taxes for wages paid from September 1 through December 31, 2020 (“Presidential Memorandum”).

On August 28th, the Treasury Department released Notice 2020-65 (“Treasury Notice”), providing guidance on the operation of the employee Social Security tax deferral under the Presidential Memorandum.

Payroll Network strongly recommends that our clients consult with their legal counsel and tax advisors regarding whether to offer this deferral to their employees. Should you be interested in participating, please reach out to support@payrollnetwork.com.

FAQs

- **Is it optional?**

The deferral of withholding of Social Security taxes from eligible wages is optional for employers. The Secretary Mnuchin (Treasury) has publicly stated that employers cannot be forced to participate in the deferral program. Additionally, the IRS will not require employers to notify the IRS of the employer’s participation decision.

- **Do all employees need to participate if we offer this as a company?**

Employees are not required to participate if offered by the employer. Not all employees may want to have the burden of a repayment in the new year. Therefore, guidance should be that if you are offering this, you may want to offer a ‘opt in’ process to track, and then provide the needed details on repayment.

- **Is it a deferral or forgiveness?**

Currently the Employee tax is only a deferral. This means it must be repaid. No guidance on how the repayment should occur or effects on the tax reporting have been provided at this time. Any deferred tax amount will be re-collected starting January 1, 2021 and is due to be paid to the IRS before the established deadline of April 30, 2021.

- **When are payments to be repaid?**

Payments for the deferral should be repaid between January 1st and April 30th, 2021. If an employee terminates before or during this time, payment reimbursement agreements should be made.

- **Which Employees are eligible?**

It only applies if the amount you earn is less than \$4,000 bi-weekly (or equivalent amounts for other pay schedules). Equivalent amounts for other pay cycles are: Daily \$400, Weekly \$2,000, Semimonthly \$4,333, Monthly \$8,667. This should be evaluated on a pay by pay basis.

- **How will this be reported?**

The IRS has made available a DRAFT 941 for Q3 2020 which does have a new line to report the deferred amount of employee share of Social Security tax. (<https://www.irs.gov/pub/irs-dft/f941--dft.pdf>)

Resources:

Presidential Memorandum: <https://www.whitehouse.gov/presidential-actions/memorandum-deferring-payroll-tax-obligations-light-ongoing-covid-19-disaster/>

IRS Notice: <https://www.irs.gov/pub/irs-drop/n-20-65.pdf>