

Payroll Tax Deferral: Employee Frequently Asked Questions

The employee payroll tax deferral has been discussed recently through many media sources. As such, you may receive questions from employees. We have provided some key points that you may want to share with employees who have questions on the deferral.

What is the Payroll Tax Deferral?

On August 8th President Trump signed an executive memorandum aimed at COVID-19 relief, which would defer payroll taxes. The payroll tax deferral is available with respect to employees who have wages and compensation of less than \$4,000 in a given biweekly payroll period during the September 1 to December 31, 2021 deferral period, or an equivalent amount for other payroll periods.

Can my employer choose whether to offer the payroll tax deferral?

Yes. Your employer may choose whether to offer this payroll tax deferral to their employees. Additionally, your employer may choose when to offer the deferral. The IRS guidance on the deferral was issued only two business days prior to the effective date. As such, CTR and many other payroll companies are still programming their systems to accommodate the proper tracking of the payroll tax deferral option.

How will the Payroll Tax Deferral Impact my Paycheck?

The 6.2% employee portion of social security taxes may be deferred. You may not qualify for the payroll tax deferral for every paycheck. You may only take advantage of the deferral if the amount you earn is less than \$4,000 for each bi-weekly paycheck (or equivalent amounts for other pay schedules as noted below).

Weekly Pay Threshold- \$2,000
Semi-monthly Pay Threshold- \$4,333

Must the taxes be repaid?

Yes. This is only a deferral. Any amounts that are not taken from your paycheck from September 1, 2020 through December 31, 2020 must be withheld from your pay beginning in January 2021. If you want to take advantage of the deferral it is important to budget that your future take home pay could be reduced by 6.2% for your payrolls beginning in January until you have paid back the deferred taxes.

How will the tax be repaid?

Employers are directed to begin withholding the deferred taxes “ratably” from your paycheck beginning January 2021 through April 30, 2021. “Ratably” most likely means that the taxes would be withheld in even amounts each paycheck from January through April until the total amount is repaid. This means that if you elect the deferral your net “take home” pay would be reduced from January through April



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2021. Employers are seeking additional guidance from the IRS and Department of Treasury as to the recommended method of collecting those taxes.

What if I leave the company prior to January 2021?

If you leave the company prior to repaying the full amount of the deferred taxes, your employer may withhold the full deferred amount from your last paycheck. Depending on the amount, this could take up nearly all of your last paycheck.

We have heard that the taxes may be forgiven

President Trump indicated he will seek to forgive the unpaid taxes if he is reelected. At this point, we have no indication of the likelihood of whether these taxes will be forgiven. The latest reports are that Senate Democrats are pushing for a vote to overturn the payroll tax deferral entirely. Simultaneously, Republicans in congress are seeking to forgive the unpaid taxes immediately rather than deferring to the next presidential term.