



COVID-19 UPDATE | SEPTEMBER 2, 2020

THE PROS AND CONS OF EMPLOYEE SOCIAL SECURITY PAYROLL TAX DEFERRAL

As a result of the ongoing COVID-19 pandemic, the President signed an executive order in early August to defer the employee withholding and employer payment of employee social security taxes for wages beginning September 1st and continuing through December 31, 2020. The 6.2% social security tax on wages is eligible for deferral for employees whose wages are less than \$4,000 in a biweekly pay period.

On Friday, August 28th, the Treasury released much anticipated guidelines, which provide additional detail in regard to the payroll tax deferral. However, the guidelines place employers in a difficult position as to whether to opt in and comply with the order, or opt out and not defer taxes for their employees.

Below are the pros and cons of opting in to the payroll tax deferral for both employers and employees:

Pros:

- By opting in, employers provide certain employees with a 6.2% benefit during the deferral period.
- Example Deferral: A \$52,000 salary employee would defer approximately \$1,054 in total.

Cons:

- This 6.2% benefit would need to be repaid between January 1, 2021 and April 30, 2021 (although there is potential that additional legislation may allow this amount to be forgiven).
- Employers are responsible for paying back the deferral, either by implementing additional withholding in 2021, or by making other repayment arrangements with employees.
- If employee wages vary during the deferral period, they could move in and out of deferral eligibility, creating an additional administrative burden for employers.
- Paying back the deferral amount would negatively impact employee cash flow in 2021.

When deciding whether to opt in, employers should weigh the risks. The risk of opting in is that, in addition to any administrative burden it may cause, the employer is ultimately responsible for paying back the deferral amount. However, the risk of opting out is that if the deferral amount is ultimately forgiven, certain employees would miss out on the 6.2% benefit.

Despite the recently released guidelines, there are still many unanswered questions in regard to this matter. CRR is closely following all guidance being released in order to be able to best support our clients in making a decision. If you have any questions, please don't hesitate to contact us, or visit our COVID-19 Resource Center at www.crrcpa.com/covid19 for the latest alerts, updates, and impacts.

We're in this together.