PAYROLL TAX DEFERRAL OVERVIEW

An executive order signed by President Donald Trump in August allows for employers to optionally defer withholding Social Security (SS) taxes from paychecks dated between September 1 and December 31 for employees earning less than $2,000 per week. If an employer defers Social Security withholdings in 2020, the deferred amounts must later be recovered and remitted between January 1 and April 30, 2021.

There are many complex factors to consider before opting to defer Social Security withholdings:

1) The deferral is NOT tax forgiveness. 2020 deferrals MUST be recovered and paid by April 30, 2021.
2) Only employee share Social Security may be deferred – not any other taxes or withholdings.
3) An employer is NOT required to defer SS taxes at their employees’ request. It is the employer’s decision whether to participate in the deferral program. Note that deferrals can begin at any time, even if payrolls with SS withheld have already been posted during the deferral period.
4) Extra Social Security tax must be withheld from employees between January and April 2021 to collect and repay all deferrals. This means that while paychecks may be higher than usual during the end of 2020, they will in turn be lower than usual during the recovery period beginning in 2021. Employees should be informed of the additional recovery withholding so they can prepare and budget for reduced paychecks in 2021.
5) In cases where the deferrals cannot be withheld in 2021, such as when employees separate from employment before the deferred amount is collected or do not earn enough by April 30, 2021 to withhold the deferral, the employer is responsible for repaying the uncollected amount. If an employer pays for any deferral that cannot be recovered from an employee, that amount must be reported as taxable income paid to the employee.
6) Implementation of the deferral option will require a significant amount of work for fiscal officers. While full instructions will appear in another section below, this is an overview:
   a. Edit every payroll in 2020 to set each wage’s employee share Social Security to $0.00.
   b. Ensure that wages of more than $2,000 per week (or equivalent) still have SS withheld.
   c. Edit 3rd and/or 4th quarter Forms 941 to manually calculate the deferred SS withholdings.
   d. Edit 2020 Forms W-2 to reflect the deferrals. Tentative - The IRS has not yet released any related guidance on the 2020 W-2 form.
   e. Add a new miscellaneous withholding for use in 2021 to recover the deferred SS taxes.
   f. Attach the new withholding to all applicable earnings for Social Security employees.
g. Monitor the new withholding on each payroll during the recovery period of 2021 to ensure the total deferred amount is recovered from each employee.

h. Remit the recovered SS withholdings along with regular federal withholdings.

i. Edit 1st and/or 2nd quarter Forms 941 to manually calculate the recovered SS withholdings. **Tentative - The IRS has not yet released any related guidance on the 2021 941 form.**

j. Deactivate the new withholding on all Social Security employees after April 30, 2021.

k. Remit any remaining SS deferral amounts that were not recovered from employees.

l. Edit 2021 Forms W-2 to reflect the recovered deferrals. **Tentative - The IRS has not yet released any related guidance on the 2021 W-2 form.**

UAN Support cannot provide advice about whether or not to participate in this optional deferral program. If you are considering doing so, it is strongly recommended that you seek prior guidance from a qualified tax professional. It is important to understand all of the ramifications of the program before opting to participate. The official published IRS guidance is available at this link:


The guidance is titled ‘Guidance Issued to Implement Presidential Memorandum deferring certain employee Social Security tax withholding’ and is date August 28, 2020.

If you decide to participate in the program, detailed instructions are below.

---

**PAYROLL TAX DEFERRAL INSTRUCTIONS**

**During 2020**

1) Edit every payroll through December 31, 2020 (pay period dates are not relevant).
   a. Set the Override amount for the employee share of Social Security on every wage to $0.00 and click ‘OK’ on the popup warning message.
   b. Note that any wages of more than $2,000 per week (or equivalent) before taxes must still have SS withheld. This threshold must be evaluated for each pay period individually.

2) Edit 2020 3rd and/or 4th quarter Forms 941.
   a. Calculate the deferred SS withholdings by subtracting the SS Employee total from the SS Employer total on the Wage Withholdings Summary report, for the appropriate quarter, in Payroll > Reports & Statements > Wage Reports.

3) Edit 2020 Forms W-2 to reflect the deferrals. **Tentative - The IRS has not yet released any related guidance on the 2020 W-2 form. UAN cannot provide additional detail at this time.**

**Before the first payroll dated in 2021 (pay period dates are not relevant)**

1) Add a new SS Recovery withholding.
   a. In Payroll > Maintenance > Withholdings, click Add.
   b. Enter an appropriate name, such as “2020 Social Security Recovery”.
   c. Select Process Group K00 “Miscellaneous Withholding”.
   d. Select your Federal tax payee and location.

2) Add the SS Recovery withholding to each applicable employee.
a. In Payroll > Maintenance > Employees, select every employee who had Social Security taxes deferred in 2020, then click Edit.

b. On the Withholdings tab, click Add and select the new withholding. Fill out all of the required details and be sure to attach all earnings subject to Social Security. A default per-wage withholding amount may be entered if desired, but UAN Support cannot suggest default amounts or distributions for particular situations.

c. Click Save and proceed to edit any remaining employees.

3) Monitor the SS Recovery withholding on each payroll during the recovery period of 2021.

   a. Between January and April, for each employee, keep track of their 2020 deferral total, the amount recovered to date, and the amount remaining to be withheld.

   b. The total amount deferred for each employee must be recovered by April 30, 2021.

   c. When the full deferral for a particular employee has been withheld, the SS Recovery withholding for that employee should be deactivated (see steps ‘b’ and ‘c’ in the section below titled “After April 30, 2021”). Be careful not to withhold more than was deferred.

   d. Note that UAN Support cannot suggest withholding amounts or pay period distributions.

4) Remit the recovered SS withholdings along with regular federal withholdings.

After March 31, 2021

1) Edit 2021 1st quarter Form 941.

   a. Calculate the recovered SS withholdings by subtracting the SS Employer total from the SS Employee total on the Withholding Summary report, for the first quarter, in Payroll > Reports & Statements > Withholding Reports. Tentative - The IRS has not yet released any related guidance on the 2021 941 form. UAN cannot provide additional detail at this time.

After April 30, 2021

1) Deactivate the new SS Recovery withholding.

   a. In Payroll > Maintenance > Withholdings, select the SS Recovery withholding and click Deactivate.

   b. In Payroll > Maintenance > Employees, select every employee with the SS Recovery withholding attached, then click Edit.

   c. On the Withholdings tab, select the SS Recovery withholding and click Deactivate.

   d. Click Save and proceed to edit any remaining employees.

2) Remit any remaining unrecovered SS withholdings in Accounting > Transactions > Payments.

3) Edit 2021 2nd quarter Form 941 (if necessary).

   a. Calculate the recovered SS withholdings by subtracting the SS Employer total from the SS Employee total on the Withholding Summary report for the second quarter in Payroll > Reports & Statements > Withholding Reports and then adding the amount paid from Accounting in Step 2 above. Note that any deferrals that cannot be recovered from employees by April 30 must be paid by your entity, and reported as taxable income unless arrangements are made with the employees to reimburse your entity. Tentative - The IRS has not yet released any related guidance on the 2021 941 form. UAN cannot provide additional detail at this time.

After December 31, 2021

1) Edit 2021 Forms W-2 to reflect the recovered deferrals. Note that any deferral paid by your entity that is not recovered from an employee must be reported as taxable income unless the employee
reimburses your entity before the end of 2021. *Tentative - The IRS has not yet released any related guidance on the 2021 W-2 form. UAN cannot provide additional detail at this time.*

There may also be additional factors to consider before choosing to participate in the deferral program. Again, if you are considering doing so, it is strongly recommended that you seek prior guidance from a qualified tax professional.

As a final note, while current law requires repayment of all 2020 Social Security deferrals, Section 4 of the executive order authorizing the deferral program reads as follows: *“The Secretary of the Treasury shall explore avenues, including legislation, to eliminate the obligation to pay the taxes deferred pursuant to the implementation of this memorandum.”* It is unknown if any such change will occur, nor what impact it would have on reporting and/or refunding of Social Security taxes withheld for 2020. At this time, UAN Support cannot provide any information about potential future changes to the repayment requirement.

For reference, the complete executive order is available at this link:


---

**AUDITOR OF STATE INVOICES**

Our Finance Office has asked that we send a reminder that all Auditor of State invoices, including UAN fees, are now available through our eServices website and are no longer being mailed. If you have any questions on the eServices feature please review the information at [https://OhioAuditor.gov](https://OhioAuditor.gov) > Quick Links > Customer eServices, additional questions can be directed to our Finance Office at 1-800-282-0370.