IRS Issues Guidance on Employers’ Option to Defer Social Security Tax Withholding
(This option does not impact the withholding of any Indiana tax)

The IRS recently issued guidance implementing the Presidential Memorandum dated August 8, 2020, allowing employers the option to defer the federal withholding and payment portion of their employees’ Social Security tax. This deferral option is only for wages paid from September 1, 2020 through December 31, 2020 and only if the employee’s wages are below $4,000 during a bi-weekly pay period (under $104,000 per year).

The employee Social Security tax deferral may only apply to payments to an employee of taxable wages that are less than $4,000 during a bi-weekly pay period, with each pay period considered separately. The deferral is not available for any payment to an employee of taxable wages of $4,000 or above for a bi-weekly pay period. Employers (other than the federal government) are permitted to opt out of this Memorandum, which would result in no changes to employees’ taxable wages. The employer decision to either opt in or out of this deferral, impacts all of the employer’s employees. Employees are not permitted to individually opt in or out of the payroll tax deferral.

This is a tax deferral, not tax forgiveness. Any deferred amounts must then be collected and remitted January 1, 2021 through April 30, 2021. Interest and penalties will begin to accrue on all unpaid deferred payroll taxes starting May 1, 2021. If an employer has opted in to the payroll tax withholding deferral, please note that beginning January 1, 2021, employees’ bi-weekly paycheck amount will likely be lower because employers must begin withholding the deferred payroll tax portion along with the current payroll tax portion.

This tax deferral does not apply to any taxes due to Indiana. Employers and other withholding agents must continue withholding and remitting all taxes required under Indiana law such as wages, gambling winnings, and non-resident shareholders/partners.

Employees should contact their individual employer or the IRS regarding this federal Social Security withholding tax program.

To view the IRS guidance on this topic, please click this link to be redirected to the IRS.