

Client Letter

What does the New Payroll Tax Deferral Mean?

Client Letter at A Glance

- Trump's executive orders call for a payroll tax deferral from Sep. 1 – Dec. 31, 2020
- The Order suspends the collection of 6.2% Social Security tax through Dec. 31, but this is a deferral, not a forgiveness
- Relief only applies to those with a biweekly pre-tax income of less than \$4,000
- Unemployed or furloughed receive no benefit

Dear Clients,

It appears these unprecedented times are affecting us all—even those in the White House. In early August, [President Trump officially issued an executive order for a payroll tax deferral](#) to begin September 1.

In this letter, we want to fill in the blanks, answering: Just what *is* the new payroll tax deferral, and who does it help?

Let's start by clarifying a few things:

- Payroll tax relief only applies to those with a **biweekly pre-tax paycheck of less than \$4,000**.
- The deferral **only applies to those on a payroll**. The relief **won't aid millions of** those unemployed or furloughed due to COVID-19.
- The relief **only addresses the employee's 6.2% share of Social Security taxes**, not the 1.45% Medicare taxes.
- The employee is **expected to repay the deferred payroll tax through ratable payroll withholding between January 1, 2021, and April 30, 2021**.

Trump's Executive Order

On August 8, 2020, the President issued four executive orders extending unemployment bonuses and postponing payroll taxes.

Payroll tax deferral is the order of interest to most of us. Basically, from September 1 - December 31, employees won't have to pay their 6.2% Social Security earnings. Although in theory, this makes workers 6.2% better off, we *will* be expected to pay this back into the government's coffers over the first four months of 2021.

Who Qualifies for Payroll Tax Relief?

It sounds generous on the surface, but payroll tax deferral only aids those *on* a payroll. Because unemployment levels have soared this year, fewer people will qualify. Basically, any form of payroll relief will not aid those without jobs. The President's deferral also does not apply to the self-employed (or gig economy workers).

President Trump's payroll tax relief only applies to people who earn a pre-tax income of less than \$4,000 biweekly - approximately \$104,000 annually. The maximum deferral is \$2,149 ($\$8,666 \times 4 \text{ months} \times .062$).

Relief, or a Short-Term Loan?

One thing the deferral has done, at least, is bring Republicans and Democrats together. Both sides have criticized the President's move, probably because they prefer to legislate, rather than have the President use his executive powers.

The Effects of the Election

A further thing to consider is the upcoming election. Should President Trump win a second term, he has said his administration would work toward forgiveness of the deferred payroll tax and ask Congress for appropriate legislation.

I hope this answers some of your questions. If not, give us a call, and we can help. We're in this together, after all.

Warm Regards,