Optional Payroll Tax Deferral Program

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Summary

Executive Order allows employers to defer Social Security payroll taxes through the end of calendar year 2020. Participation is optional at the discretion of the employer. Deferred taxes must be repaid by the employee no later than May 1, 2020. Employers are responsible for managing the deferral and the repayment.

Executive Order (85 FR 49587)

- Temporary deferral of Social Security payroll tax
- From September 1, 2020 – December 31, 2020
- 6.2% of employees' gross income
- Must be repaid beginning January 1, 2021, and before May 1, 2021, or penalties and interest accrue
- Optional for employers
- Policy Call

Application to City:

- Approximately 400 employees, including almost all temps, pay Social Security payroll taxes
- Must collect 12.4% of employees' gross income starting January 1, 2021, to pay back the deferred tax
- If City opts in, individual employees may not opt-out

Potential Impacts to City:

- **Manual calculation of both the initial deferral and the payback will be required.** (Finance)
  - Additional personnel required, potential errors
- **If employee leaves City service before tax is paid back, City may be liable for deferred tax.**
  - Unknown liability
- **Impacted employees will have more net pay now, but less later.**
  - Employees may misunderstand money needs to be repaid