



Dear Client,

You may have heard that the President recently signed an executive order that allows employees to defer their half of Social Security tax (6.2% of their gross wage) on wages paid 9/1/20 through 12/31/20. The employees are then required to pay that “loan” back January through April 2021 through payroll deductions.

To illustrate, following is an example of an employee that makes \$50,000 per year (\$962/week):

- The employer would withhold \$0 for the employee’s half of Social Security tax, so that employee will get an extra \$59.64 each paycheck through the end of 2020.
- Starting January 2021, you will deduct that employee’s normal 6.2% Social Security tax plus the 6.2% that they deferred from 2020, so their paychecks will be \$119.28 smaller than their Sept-Dec 2020 paychecks until they have paid the entire loan back

Important Notes

1. Under this executive order, for 2020 the employer will still owe the employer half of the 6.2% Social Security tax as normal.
2. The President has suggested this employee payroll loan could be forgiven, but this is pending further legislation.
3. Employees that make more than \$2,000 weekly (or \$4,000 bi-weekly) are not allowed to defer their Social Security tax. If an employee makes over \$2,000 (or \$4,000 bi-weekly) for one pay period, then you would withhold Social Security tax from the wages for that one paycheck. If subsequent paychecks are under these limits, the Social Security tax can be deferred.
4. Very little guidance has come out on this new legislation, so we are hoping that more specifics will come out soon, as this all begins September 1st.
5. As an employer, we do not see that you are required to do this deferral for your employees, however, if an employee asks you to do it, then you are probably required to do it for that specific employee.
6. This does not affect Medicare tax at all. Both the employer and employee halves of Medicare tax are due on your normal EFTPS schedule.

7. If you have an employee request this payroll tax deferral, we recommend putting together a written and signed agreement with each employee that explains the following:
 - a. The Social Security tax that is not withheld from 9/1/20 – 12/31/20 will be repaid through payroll deduction from 1/1/21 – 4/30/21.
 - b. If the employee leaves the company before the loan is fully repaid, any remaining amount that has not been repaid will be withheld from the employee's final paycheck.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Your Cornerstone CPA Group Team