FACTS FOR FEDS
Payroll Tax Deferral Questions and Answers

I'm a current federal employee and I received notice that I'm going to have my payroll taxes deferred. Can you explain what this means? What should I be doing?

In early August, President Trump directed the Secretary of the Treasury to "use his authority to defer certain payroll tax obligations" during the last four months of 2020. According to guidance issued by the IRS, the 6.2 percent employee portion of OASDI (Old Age, Survivors, and Disability Insurance) taxes (a.k.a. Social Security taxes) will be deferred, and generally applies to wages paid starting September 1, 2020, through December 31, 2020. Employers have a choice whether to take such action. In the case of the federal government, the president is the chief executive who has decided to implement the deferral, and as such, federal employee payroll taxes will be deferred.

The penalty- and interest-free deferral of these payroll taxes for many active federal employees will be automatic, with no option to opt out. The deferral applies to employees whose wages are less than $4,000 per biweekly pay period (or less than $8,666.66 per monthly pay period, or $104,000/year). If your wages are typically less than these amounts, but you're working more hours due to COVID or other circumstances, the normal Social Security tax will be withheld from any pay period that exceeds the limits set above.

Most agency payroll offices applied the deferral effective the pay period ending September 12, 2020. However, according to a statement on the National Finance Center's website, it will apply the Social Security tax deferral for applicable employees effective for pay period (PP) 17, which is the first PP to be paid after September 1, 2020. In other words, the pay period ending August 29, 2020. We strongly recommend that employees check with their own agency payroll office for specific details. Some additional resources are listed in the box to the right.

The deferral of payroll taxes does not apply to the 1.45 percent Medicare tax that federal employees currently pay from their wages.

In addition to the links provided, here are some resources that you may find useful regarding this information.

DFAS Payroll Office Update
https://www.dfas.mil/taxes/Social-Security-Deferral/

Dept. of Interior Payroll Office Update
https://www.doi.gov/employees/update-payroll-tax-withholding-deferral

OMB Guidance on Implementing Payroll Tax Deferral for Federal Employees
https://www.whitehouse.gov/wp-content/uploads/2020/09/M-20-35.pdf

Who is NOT affected by this?

- The deferral of payroll taxes does not apply to Civil Service Retirement System (CSRS) employees because their federal employment wages are not subject to Social Security taxes. The deferral of payroll taxes will typically apply to Federal Employees Retirement System (FERS) employees, CSRS Offset employees, and employees with appointments exempt from federal retirement coverage, but not exempt from OASDI.
- Any federal employee whose gross income is greater than $104,000 annually ($4,000 per pay period) will see Social Security taxes withheld normally during this time.

- Retirees receiving a federal annuity and/or Social Security are not affected at all by this policy. However, if you're continuing to work in retirement and are collecting a paycheck, you should check with your employer to see if this applies to you.

Can you put this in real terms for me?

The Social Security tax typically represents 6.2 percent of most federal employees' wages, keeping in mind that deductions for pre-tax health insurance premiums, dental or vision insurance premiums, and flexible spending account allotments reduce one's Social Security taxable wages when applicable. In other words, the amount of wages remaining after any applicable deductions listed above are typically taxed for Social Security (up to an annual limit, which is $137,700 for 2020). This is the amount that will be deferred.

Pre-tax deductions for contributions to the Thrift Savings Plan (TSP) do not reduce your Social Security taxable income.

Example:

$2,000	biweekly wages
- $150	biweekly health insurance premium
- $50	biweekly allotment for health care flexible spending account
$1,800	x 6.2% = **$111.60 biweekly Social Security tax deferred**

So I'm going to see extra money in my paycheck. Do I have to pay it back? What if I plan to leave federal service soon? Can you provide any advice?

The Executive Order was written as a deferral, which means the payroll taxes deferred during this time will be due at a future date. Unless legislation is passed to eliminate the requirement to eventually pay back the Social Security tax, active employees should be prepared to repay the deferred tax from their wages between January 1 and April 30, 2021. This could possibly *double* the withholding of Social Security taxes during the first four months of 2021.

For employees who separate from federal service BEFORE the agency payroll office has time to collect the deferred tax, stay tuned. Additional information on the collection process will be provided in the future.

NARFE strongly encourages its members affected by this to save the additional funds received, because as of now, you will have to pay it back in 2021. Given the timing of the extra funds, you may be inclined to spend a little more during the holidays, or pay off some lingering bills. NARFE's experts encourage you to think twice about doing so, as you will be faced with a smaller paycheck in January if Congress does not pass legislation to forgive the deferred taxes. The president does not have the authority to forgive the deferral unilaterally, and congressional leaders have not supported the deferral policy. Do not expect or rely on congressional action to forgive this loan.

For further information, contact fedbenefits@narfe.org.