

# Employee FAQ - Payroll Tax Deferral

## Regulations and Definitions

Q: What is the payroll tax deferral?

A Presidential Memorandum, [Deferring Payroll Tax Obligations in Light of the Ongoing COVID-19 Disaster](#), was issued on August 8, 2020, to temporarily defer the employee portion of the Old-Age, Survivors, and Disability Insurance (OASDI) tax obligations for certain individuals.

On August 28, 2020, the Internal Revenue Service (IRS) issued [IRS Notice 2020-65](#) providing additional details for the implementation of this Executive Order. This notice provides instructions on the deferral (delayed collection) of the employee's portion (6.2%) of the OASDI tax. Medicare payroll taxes and the employer portion of Social Security payroll taxes are not included in the Presidential Memorandum.

Q: What is the Social Security tax?

The OASDI tax, commonly referred to as the Social Security tax, is the money your payroll provider deducts from your biweekly pay (known as the employee's share). This amount is added to an additional OASDI amount which your employing Agency pays for you (known as the employer's share) to the Federal Government to fund the Social Security program. These amounts are specifically identified on your biweekly Earnings and Leave (E&L) Statements which can be found on your [Employee Personal Page \(EPP\)](#).

## Deferral Information

Q: How can I determine if I'm an "eligible employee" for the Social Security Tax Deferral?

For those employees who would normally have OASDI withheld, the National Finance Center (NFC) will automatically calculate your eligibility on a pay period-by-pay period basis. The payroll tax deferral will be implemented for all Executive Branch Agencies and their eligible employees, and if you are eligible for the deferral, you will automatically see a change in your net pay.

Eligible employees are those who make less than \$4,000 per biweekly period in Social Security wages. Social Security wages consist of the portion of an employee's pay subject to the OASDI 6.2% tax. This will be calculated each pay period, so your eligibility may change from pay period to pay period. Deferring may vary by employee by pay period, based upon any changes in their Social Security wages in that pay period, which may take them above or below the \$4,000 threshold.

Q: What are NFC's current pay periods?

NFC's current pay period calendar is available at: [NFC Pay Period Calendar 2021](#)

**Q: When does the deferral begin, and how long does the deferral last?**

The implementation of the deferral started with pay period (PP) 18. The deferral period will end with paychecks issued through PP 25, 2020.

**Q: Can I “Opt-Out” and pay my employee portion of social security taxes on time?**

There is no choice to opt-out or to opt-in. All Executive Branch Agencies implemented the tax deferral on the employee portion of Social Security taxes across the board for all eligible employees.

**Q: Did premium pay (i.e. overtime) impact the OASDI tax deferral?**

Yes. If premium pay increased wages (subject to OASDI) to \$4,000 or above in any given pay period, the OASDI tax was not deferred in that pay period. The tax deferral is calculated on a pay period-by-pay period basis and as such, could vary based on whether the employee’s wages were at or above the wage threshold.

**Q: What happens if an individual passes away with an outstanding amount owed for OASDI deferred withholdings, will a debt notice be issued?**

The Agency will have the option to pursue collection against the estate or to write-off the debt.

**Q: What happens if an employee leaves one Department, but remains Federally employed with another Department who is also a customer of NFC, will the social security tax continue to be collected by the new Department?**

No. The NFC debt management process will commence, and the account receivable will be linked to his or her last employing Department, i.e. The Department associated with the employee at the time of the departure will be responsible for the debt.

## **Deferral Repayment**

**Q: Will I be required to pay back the Social Security taxes that were deferred?**

Yes. Per IRS guidance, the Social Security taxes deferred from PP 18 to PP 25, 2020, will be collected from your wages between PP 26, 2020, through PP 25, 2021.

**Q: Since this is a tax deferral, when will I have to pay it back?**

The IRS notice (2020-65) states that taxes deferred must be withheld and paid between January 01, 2021, and December 31, 2021, or interest, penalties, and additions to tax will begin to accrue on January 1, 2022, with respect to any unpaid applicable taxes. As a result, and absent of additional Congressional action, employees with tax deferrals will have their net (take home) pay reduced until all deferred taxes have been paid.

Employers have the flexibility over calendar year 2021 to withhold deductions in installments and remit on a prorated basis the Social Security payroll taxes that were deferred. If an employer is unable to do so, then the employer should make other arrangements to collect the deferred taxes from the employee.

**Q: How much will my payroll provider collect during each pay period starting PP 26, 2020, through PP 25, 2021?**

The amount of Social Security taxes deferred in 2020 will be collected in 26 even installments between PP 26, 2020, through PP 25, 2021.

**Q: Can I pay the total of deferred taxes back in one lump sum?**

No. There is not a way for employees to elect one lump sum payment. The primary repayment method will be through payroll deduction starting in PP 26, 2020, through PP 25, 2021, for those employees still on the rolls.

**Q: How will an employee know the total amount of 2020 deferred taxes to be collected in 2021?**

Employees can compute the total owed by adding OASDI wages \* 6.2% per pay period (PP18-PP25).

For more information, please see [How to Determine & Calculate OASDI Taxable Wages](#).

Additionally, HR offices have access to an Insight report that can be used to provide a summary of the employee's deferred amounts. NFC issued a customer notification on December 4, 2020, detailing access and use of the report.

**Q: I am retiring, will I be required to pay it back?**

If you retired in 2020:

Given your retirement in 2020, the Social Security taxes deferred in 2020 cannot be collected directly from your 2021 wages. Your Agency will pay the deferred Social Security taxes to the IRS on your behalf, and you will owe your Agency for this repayment. Collection will occur through the NFC debt management process. A debt letter will be sent to your address of record via US Mail. The debt letter will provide instructions for repayment. Payments can be made to NFC or online via [Pay.gov](#).

**If you are planning to or have retired in 2021:**

If you retire in 2021, before the deferred Social Security tax is collected in full, you are still responsible for the remainder of your Social Security tax repayment. A debt letter will be sent to your address of record via US Mail. The debt letter will provide instructions for repayment. Payments can be made to NFC or online via [Pay.gov](#).

**Q: If I'm furloughed during 2021, how can I repay the deferral amount?**

If you are furloughed in 2021, before the deferred Social Security tax is collected in full, you are still responsible for the remainder of your Social Security tax repayment. A debt letter will be sent to your address of record via US Mail. The debt letter will provide instructions for repayment. Payments can be made to NFC or online via [Pay.gov](#).

**Q: I received a Demand Notice for Payment due to OASDI deferred taxes, is this a valid notice?**

Yes, this is a valid notice and the debt is due the United States Government.

**Q: Can I enter into repayment agreement?**

Yes, you can enter into a repayment agreement with the Agency the debt is due to. This information will be sent to NFC and documented in the debt management system.

**Q: If I received a debt notice due to being on LWOP or for having insufficient pay, can I elect to have salary deductions occur each pay period to pay off the debt if I return to the rolls?**

Yes, if you are payrolled by NFC, you may enter into a repayment agreement with the Agency the debt is owed to and elect to have the payments garnished from your salary. This information will be sent to NFC and documented in the debt management system.

**Q: Will interest and penalty accrue on this debt?**

The due date for the entire debt to be paid in full is January 3, 2022. However, penalties, interest and additions to tax will start to apply if not repaid by this date. Please reference [IRS Notice IR-2021-17](#), January 19, 2021 for further guidance.

**Q: What happens if I do not pay the debt in full or enter into a repayment agreement to pay this debt?**

If by January 3, 2022, you do not pay the debt in full or enter into a repayment agreement, the debt will become delinquent. Should your debt become delinquent, it is the policy of this office to:

- Report this debt to Treasury for referral to the Bureau of Fiscal Services (BFS) for additional collection action. Also, an administrative wage garnishment order may be initiated to collect this debt. Interest, penalty, and administrative charges will continue to accrue on the unpaid debt, pursuant to 31 U.S.C., sec 3717. If the debt is referred for offset, you will be assessed an additional administrative charge.
- Refer delinquent debts to consumer credit reporting agencies. You may request a review of the status of your account, including any information that is reported to a credit bureau.
- The Debt Collection Improvement Act of 1996 (DCIA) 31 U.S.C: 3720D authorizes Federal agencies to garnish wages of an individual to collect non-tax delinquent debts owed to the U.S. Government. Wage garnishment is a process whereby an employer withholds amounts from an employee's disposable pay and pays those amounts to the employee's creditor in satisfaction of a withholding order.

**Q: Will the outstanding OASDI bill deduct from my final lump sum payment or my final T&A if I separate from Federal Service?**

- A. For all employees who separate from Federal Service on March 28, 2021 or later, the lump sum payment or final T&A processed will be garnished and applied to the outstanding OASDI bill.
- B. For employees who separate prior to March 28, 2021, the lump sum payment or final T&A processed was not garnished and applied to the outstanding OASDI bill.

**Q: What accounting was used to establish the receivables related to repayment of the OASDI withholdings?**

NFC used the payroll default accounting stored in Table Management-Table 065, across all customer agencies to record these receivables. Agencies are free to adjust the accounting within their accounting system as appropriate.

## **Tax Implications**

**Q: Does this affect any of my other tax withholdings?**

No. Pursuant to the Department of Treasury and IRS guidance, the deferral only affects your Social Security tax withholding on wages earned from PP 18, 2020, through PP 25, 2020. Please see [IRS Notice 2020-65](#) for more information.

**Q: How will the OASDI Social Security deferred taxes impact my Federal and State income tax liability?**

There is no change to the formula for computing Federal and State income tax withholding and obligations. Please note: Net pay will increase for those with tax deferrals, but gross wages will not change.

**Q: Does the OASDI Social Security tax deferral impact contributions to my Thrift Savings Plan (TSP) account?**

No. The OASDI amount collected/deferred does not impact wages used to calculate your TSP contributions. Your TSP contributions will not be affected.

## **W-2 Implications**

**Q: How will this affect my 2020 and 2021 W-2?**

Your 2020 W-2 will be issued in January 2021. Per IRS guidance, a Form W-2c will be issued once collection of the deferred taxes is complete.

**Note:** A Form W-2c may not be required for employees who separated in 2020.

The issuance of this W-2c does not change the deadlines established by the IRS for filing your 2020 income tax returns.

Per IRS guidance, if you had only one employer during 2020 and your Form W-2c for 2020 only shows a correction to box 4 to account for employee Social Security tax that was deferred in 2020 and withheld in 2021 pursuant to [IRS Notice 2020-65](#), no further steps are required.

If you have questions on tax filing, the IRS has provided instructions for employees receiving a W-2c due to the Social Security tax deferral. See [Form W-2 Reporting of Employee Social Security Tax Deferred under Notice 2020-65](#) for more information.

**Q: Will I be required to file a 2020 amended tax return after receiving the Form W-2c?**

Per IRS guidance, if you had only one employer during 2020 and your Form W-2c for 2020 only shows a correction to box 4 to account for employee Social Security tax that was deferred in 2020 and withheld in 2021 pursuant to [IRS Notice 2020-65](#), no further steps are required.

If you have questions on tax filing, the IRS has provided instructions for employees receiving a W-2c due to the Social Security tax deferral. See [Form W-2 Reporting of Employee Social Security Tax Deferred under Notice 2020-65](#) for more information.

**Q: If I do not pay the debt back in full by December 31, 2021, will a 2020 W-2c be required?**

If the full debt is not paid by December 31, 2021, a 2020 W-2c will be issued showing the amount which has been paid.

Any questions you have concerning your tax adjustment should be directed to the Internal Revenue Service or a professional tax advisor.