



# Payroll Tax Deferral

*Dear Dr. Per Cap:*

*I'm a federal employee (Indian Health Service) and just found out the government is changing the way payroll taxes are withheld. How will this effect my paycheck?*

*Signed, Health and Wealth Minded*

Dear Health and Wealth

The payroll adjustment is a temporary tax deferral resulting from a presidential order. Its purpose is to help folks who might be struggling financially due to the pandemic. The order allows employers to temporarily defer social security tax from employee paychecks. The important word here is “defer”. That means the tax still has to be paid just delayed until January of next year. At that time deferred taxes will be added back to paychecks in installments through April.

Federal employees and active duty military are already seeing their social security tax automatically deferred so the program is not voluntary. The deferral is also available to private, state, and tribal employers although not many non-federal employers are opting in.

That's probably because there hasn't been a lot of detail regarding how the deferral payback will work. Moreover, while a bigger paycheck today might be helpful, it just delays the inevitable and a smaller paycheck beginning next year. Interestingly, the president has stated he will forgive the deferred taxes, meaning employees won't have to repay them, if he wins another term in November but obviously that's a crapshoot and forgiveness will still require congressional approval.

The deferral is also only available to employees who earn less than \$4,000 bi-weekly. In most cases that applies to a federal employee who is a GS-13, step 5 and below. Now let's look at the math to see how the social security tax deferral impacts a paycheck.

Let's say you earn a biweekly salary of \$2,200 or \$56,000 a year. The social security tax a person must pay on that income amounts to 6.2%. Therefore a typical paycheck will have \$136.40 of social security tax withheld ( $\$2,200 \times .062$ ). Because there are eight pay periods from when the deferral began in mid-September through the end of the year, a person earning \$2,200 each pay period will see a temporary bump in pay totaling \$1,091. Not a giant windfall but enough to pay some bills or go

Christmas shopping. However, don't get carried away because the deferred tax will probably need to be paid back beginning in a few months.

Also remember the deferral only applies to social security tax. It doesn't defer other types of withholding on a typical paycheck such as 1.45% for Medicare, federal and state income tax, health insurance premiums, 401-k contributions, or garnishments. I think Albert Einstein had it right when he said "The hardest thing to understand in the world is the income tax."

***Ask Dr. Per Cap*** is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit [www.firstnations.org](http://www.firstnations.org). To send a question to Dr. Per Cap, email [askdrpercap@firstnations.org](mailto:askdrpercap@firstnations.org).