

GMS Flash Alert

2020-382 | September 1, 2020



United States - New IRS Guidance on Deferral of Payroll Taxes

The U.S. Department of the Treasury and the Internal Revenue Service (IRS) late on Friday, August 28, 2020, released highly-anticipated guidance¹ implementing the payroll tax deferral directed by U.S. President Donald Trump in a recent presidential memorandum.² This new guidance provides employers with the option to defer withholding the employee portion of social security tax payments from September 1, 2020 through December 31, 2020, with the deferred payroll taxes to be repaid from January 1, 2021, through April 30, 2021.

For a comprehensive KPMG report on this development see *TaxNewsFlash-KPMG Report, "Initial analysis of Notice 2020-65, guidance on employee payroll tax deferral,"* a publication of KPMG LLP (U.S.).

WHY THIS MATTERS

This new guidance addresses several of the issues raised by the president's August 8 memorandum. The guidance makes clear that the payroll tax deferral is optional and provides a timeframe for when deferred taxes must be repaid.

Background

Payroll taxes generally include old-age, survivor, and disability insurance ("OASDI") and hospital insurance (commonly referred to as "Social Security" and "Medicare" separately or collectively as Federal Insurance Contributions Act ("FICA") taxes). These payroll taxes apply at a rate of 15.3 percent for wages up to \$137,700 for the 2020 calendar year, with the obligation for these taxes equally divided between employers and employees at 7.65 percent (6.2 percent for Social Security and 1.45 percent for Medicare). Above \$137,700, the payroll tax obligation is limited to Medicare.

There is an additional 0.9-percent Medicare tax applicable to the employee's wages that exceed \$200,000 in a calendar year.

© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 530159

Although the ultimate tax obligation is shared between employers and employees, employers have the responsibility for withholding the employee's share from wages and depositing such amounts.

On August 8, 2020, U.S. President Donald Trump issued a memorandum directing the Treasury Secretary to defer the collection of the employee portion of OASDI (but does not affect the employee portion of Medicare), though the details on implementing this deferral were left to the Treasury. (For prior coverage, see GMS *Flash Alert 2020-352*, August 11, 2020.)

Notice 2020-65

Notice 2020-65 responds to the direction in the president's memorandum. The notice allows – but does not require – an employer to defer the withholding and payment of the employee share of social security tax on wages paid during the period of September 1, 2020, through December 31, 2020, for employees earning below a threshold amount: \$4,000 per bi-weekly pay period or the equivalent amount with respect to other pay periods.

Notice 2020-65 provides that an employer that defers must withhold and pay the deferred taxes ratably from wages paid during the period from January 1, 2021, through April 30, 2021. Therefore, employees benefiting from the deferral may have additional payroll taxes withheld during that four-month period in 2021. If the applicable taxes are not fully repaid by April 30, 2021, interest and penalties and additions to tax will accrue to the employer starting on May 1, 2021. However, the employer may make alternative arrangements to collect the taxes from the employee if necessary.

FOOTNOTES:

1 IRS Notice 2020-65, at: <https://www.irs.gov/pub/irs-drop/n-20-65.pdf>.

2 Presidential Memorandum, "Memorandum on Deferring Payroll Tax Obligations in Light of the Ongoing COVID-19 Disaster" at: <https://www.whitehouse.gov/presidential-actions/memorandum-deferring-payroll-tax-obligations-light-ongoing-covid-19-disaster/>. See GMS *Flash Alert 2020-352* (August 11, 2020) for prior coverage.

* * * *

The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.

The information contained in this newsletter was submitted by the KPMG International member firm in United States.

www.kpmg.com

kpmg.com/socialmedia



© 2020 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 530159

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint ventures. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click [here](#). To learn more about our GMS practice, please visit us on the Internet: click [here](#) or go to <http://www.kpmg.com>.