Memorandum on Payroll Taxes Deferral for September 2020 to December 31st, 2020

Simple Effective Ideas That Will Help:

BLUF: Your federal employee paycheck is likely going to be bigger for the months of September through December 2020, due to a payroll tax DEFERRAL. We recently received an email informing us of that on 08 Aug. 2020; the President signed a Memorandum pertaining to a payroll tax deferral.

What are Payroll Taxes?

Payroll taxes consists of income taxes, unemployment taxes, and deductions for Federal Insurance Contributions Act taxes (FICA). Within FICA is Social Security, Old Age, Survivors, and Disability Insurance (OASDI) and Medicare which is Hospital Insurance taxes. FICA is being deferred.

The current tax rate for Social Security is 6.2% for the employer and 6.2% for the employee. Only the employee portion (6.2%) is being deferred.

Which Payroll Tax is Deferred?

Specifically, the temporary change will defer the withholding of all eligible employees' 6.2% OASDI taxes. Those with gross wages of $4,000 or more per biweekly pay period (or the equivalent amount with respect to other pay periods) are not impacted by this tax deferral. When implemented, the 6.2% OASDI tax deferral will be effective from 1 Sept. 2020 until 31 Dec. 2020. There is no provision to opt-out.

Who

The deferrals will apply to all federal employees (and some other employees, depending on the employer) making less than $104,000 per year, or $4,000 gross per biweekly pay period.

Simply stated, this short-term loan will need to be repaid in full, and not an increase in take - home pay. In the short term, you may see an increase in take-home pay, but unless Congress passes COVID-19 legislation to forgive the payroll taxes that are due, you will likely will be expected to pay that money back from January through April in 2021, for tax year 2020. You can imagine that this could be a hefty and unplanned bill.

You will be getting calls from salespeople soon with "Payroll Taxes Saving Strategies and Scams. "Take heed and extreme caution.

Easy METHODS to Arrive at Temporary Spendable Increase

1. *Refer to your Last Pay Statement or LES*
2. *Just Simply use a 6.2 Rule of Thumb*
3. *Use an Online Salary Calculator Designed to Compute Payroll Taxes*

Here are a couple of simple effective ideas that will help.

- Set aside the additional amount each pay period in a separate saving account at your bank or credit union, and then use that to pay back your taxes when they come due. A bonus is that you can keep the interest earned on the money! If you do not have the money readily available, by some estimates, you will have to double your regular payroll tax rate during the first four months of 2021 to cover the amount. Additionally, it is possible that if you do not pay it back in full, you will then have to pay interest and penalties.

- An easier route is to use a rule of thumb…Just save the 6.2% OASDI tax each paycheck or check your latest August paycheck to see how much Social Security (OASDI) tax is usually deducted from your earnings, to know how much to set aside.

Need Help?

Please contact your installation's PFM, PFC or CFS. They are there to help.

Tax Note:

Please note that PFMP does not prepare taxes, they provide product free and commercial free education to help Marines make informed financial decisions.

Reference

Memorandum on Payroll Tax Deferrals: https://www.whitehouse.gov/presidential-actions/memorandum-deferring-payroll-tax-obligations-light-ongoing-covid-19-disaster/

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