



August 3, 2020

**How Quickly Could a Limited Social Security Payroll Tax Cut be Implemented?**  
**Part II: Implications of Different Effective Dates and Alternative Approaches**

The Treasury Department asked for a feasibility analysis of alternative approaches that would generally add new calculations to existing Social Security taxation programs in payroll systems. **Our nutshell assessment is that not all employers would be able to make the changes. Some would make the changes as late as November, or not at all.** Those that can't would need the option to advise employees to take the tax reduction on their annual Form 1040.

Background: Employees pay a 6.2% Social Security tax on wages up to an annual limit (\$137,700 in 2020), so someone earning \$137,700 or more would pay \$8,537.40 in 2020. Medicare tax of 1.45% is also assessed with no taxable wage limit, and an additional 0.9% is withheld on Medicare wages over \$200,000 annually.

Policymakers have asked whether a Social Security tax suspension could be implemented quickly, if the suspension only applies to up to \$75,000 in wages. The suspension would NOT have retroactive effect but may be effective for wages paid after August. Medicare taxes and employer Social Security taxes are unaffected.

**Alternatives:**

- 1. If pay to date less than X withhold no FICA.**
  - a. A zero Social Security tax rate for wages under \$75,000 in 2020. This would generally be possible within a few weeks of final IRS forms and guidance.
- 2. If amount paid in the pay period is less than X annualized (with published cutoffs by pay frequency) withhold no FICA.**
  - a. Moderately more complex. Considerations include:
  - b. Option 2 wouldn't take into consideration prior earnings so it may suspend S.S. tax for employees that have earned well over \$75,000 in 2020.
  - c. May result in surprising results; e.g., if employees have dramatically reduced or increased hours or earnings; bonuses or commissions, etc., they may not receive the suspension when they know they are eligible.
- 3. If pay to date less than X AND amount paid in the pay period is less than X annualized (with published cutoffs by pay frequency) withhold no FICA.**
  - a. Opinions varied but several expressed doubt that this approach could be put into effect with less than 2-3 months lead time.
  - b. Employees with variable earnings may not receive the suspension when they know they are eligible.



**4. If pay to date plus amount paid this pay period times number of remaining pay periods is less than X withhold no FICA.**

- a. This is likely infeasible in the time permitted.
- b. Similar concerns as #2 and #3 but adds the need to compare the employee's pay frequency (more than one pay frequency can apply for an employee) to determine the remaining pay periods for purposes of annualizing their pay.

**General reaction:**

- The first option is preferable. Some estimated 5-6 months to address any other alternative.
- "Minimum of 30 days" mentioned by several firms (some said three weeks) for any change.
- Option 4 would be the most difficult because we'd also need to factor in a pay period number when running payroll to determine which pay period applies (e.g., 19 of 26, etc.). There were many objections to #4 – probably infeasible; overly complex.

**Considerations for all**

- Employees that change jobs during the suspension period will recognize that they don't qualify for the suspension (e.g., earned over \$75,000 with a prior employer), and may ask that the employer apply the normal Social Security Tax rate<sup>1</sup>. Not all employers and systems will be able to respond to this in the time allowed. The IRS would need to assess any excess suspension amounts via the Form 1040.
- Stopping the Social Security recalculation could create out of balance scenarios between taxable wages and tax, which is normally enforced by payroll systems. Instead, the IRS may need to assess additional Social Security tax on the Form 1040.
- Amendments would be complex. For example, if an adjustment to wages needed to occur for earnings before the effective date of the tax holiday, would any tax adjustments follow the scheme from "prior to the effective date" and be subject or would it be based on the date of adjustment? Amendments to prior quarters to reduce prior reported wages may increase the amount of wages eligible for the suspension in the current tax period (i.e., quarter).

**Reporting alternatives and implications: Could the suspension be administered without modifying the 941 or W-2?**

- Form 941: Conceptually, Social Security Taxable Wages could simply be reduced by any qualifying S.S. wages paid after the effective date and under the \$75K threshold, so on the form 941, Social Security Tax Withheld would still equal Social Security Taxable Wages times 6.2%.
  - This approach would result in different employee and employer Social Security Taxable Wage totals, which would require one or two new lines on form 941:

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<sup>1</sup> Alternatively, employees could update their IRS Form W-4 to adjust withholding, with the expectation that the IRS will reconcile the Social Security tax suspension on the Form 1040.



- Qualifying Employee Social Security wages paid after (date)
- Qualifying Employee Social Security tips paid after (date)
- Could Social Security Wages in Box 3 of the W-2 reflect a reduced Social Security Wage amount to avoid making changes to the W-2?
  - No. Suspension of the payroll tax should not disqualify earnings from being reported as Social Security earnings used to calculate future benefits. It would be necessary to report the full value of Social Security Wages even if no tax was applied.
    - If W-2 wages include S.S. wages under \$75,000, Form W-2 wage values will not match Social Security wages reported on Form 941 unless a new 941 line is added to report wages qualifying for the suspension.
    - The IRS would need to modify automated reconciliation systems which currently assess and enforce imbalances.
  - The IRS will likely need to know the Social Security wage amounts that qualify for the suspension (i.e., wages paid after the effective date and under \$75,000 YTD), which could be an entry in Box 12 of the W-2.
  - Not all employers may be able to comply with such complex reporting changes.
- Reducing reported SS taxable wages would **conflict with FFCRA**, which provides for a 100% tax credit covering emergency sick or family leave payments (defined as Social Security wages). If FFCRA payments are made to employees under the \$75,000 threshold, the proposed treatment of reducing Social Security taxable wages reported on the 941 would result in employers receiving no tax credit for otherwise-qualifying FFCRA payments.
  - To avoid this result, payroll systems would need to be modified to calculate and separately store qualifying FFCRA sick leave payments based on FICA wages before applying the suspension calculation - - more complexity.
  - The IRS may need three new lines on the 941:
    - Taxable SS wages under \$75,000 (subject to 6.2%)
    - Qualified FFCRA sick leave wages under \$75,000 (subject to 0%)
    - Qualified FFCRA family leave wages under \$75,000 (subject to 0%)
      - Wages reported in the above two lines would need to exclude FFCRA sick/family payments to employees that have already earned \$75,000
  - Again, with weeks rather than months to accommodate such changes, employer adoption would be diverse and problematic.
- Alternatively, create a new “FICA CREDIT” (or similar) applied to Federal Income tax that could apply to each paycheck, resulting in the same increase in net pay. This approach would leave core Social Security tax calculation unchanged and be verifiable. Employees that pay little to no income taxes would receive a refund via the Form 1040.

### **What would happen if such changes are effective immediately, or September 1?**

- IRS guidance as to the impact to tax forms, reporting requirements and calculation requirements would need to be available immediately.



- Some employers will have processed early September payrolls by August 20.
- Some employers would be able to make the changes and others would not.
  - Those that can't would need the option to advise employees to take the tax reduction on their annual Form 1040. Employees could modify their IRS Form W-4 to apply the benefit of the tax reduction to their Federal Income tax withholding.
- Some employers and payroll systems may inadvertently apply the zero tax rate retroactively to January 1 because payroll systems are designed to do that.
- Some employers may devise “workaround” solutions involving adjustments to Federal income taxes to deliver roughly equivalent tax reductions to employees. We can't predict how “workaround” solutions would affect reporting on Forms 941 and W-2.
- Some employers may be able to make the changes, but not until October or November. IRS guidance should recognize this and explain how to proceed.

We appreciate the opportunity to comment on this important proposal.

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<sup>2</sup> The National Payroll Reporting Consortium (“NPRC”) is a non-profit trade association whose member organizations provide payroll processing and related services to nearly two million U.S. employers, representing over 36% of the private sector workforce. Payroll service providers have long served an important role in our nation’s tax collection system as a conduit between employers and government authorities.

With contributions from the Independent Payroll Providers Association (IPPA) and The Payroll Group (TPG). IPPA is a leading nationwide trade association made up of privately held companies whose primary function is the preparation of payroll and payroll taxes for employers of all sizes. Our broad base of independent service bureaus, both large and small, is dedicated to offering the best client service and the most advanced technology.

The Payroll Group (TPG) is a national organization that brings together Independent Payroll Service Providers across the country. Our members process payrolls, remit payroll taxes and file related payroll tax returns for approximately 950,000 small to medium size companies across most industries. Our members provide a very important service in assisting our clients in maintaining tax compliance at the federal and state levels.