**Payroll Tax Deferral is a Lose-Lose Deal for Your Practice and Your Staff**

There has been some buzz surrounding a new Executive Order signed by the President in early August, which was meant to assist workers struggling with the financial effects of the coronavirus pandemic by deferring payroll tax to next year. While this may at first glance seem like a great way for employees to see larger paychecks when they need it the most, the actual effect of this tax deferral is not that simple.

The tax deferral put into place by this Executive Order allows for practice owners to defer the withholding of the 6.2% Social Security payroll tax from paychecks of employees who earn less than $4,000 biweekly ($104,000 annually). This is only in effect between September 1st and December 31st of 2020.

While yes, this will temporarily produce larger paychecks as staff keep more of what they make, they are only deferring their tax obligations. Any payroll tax deferred this way must be repaid to the government between January 1st and April 30th of 2021, in addition to their normal Social Security payroll tax due for those months. This will actually mean lower-than-usual paychecks in early 2021 for those who deferred their taxes at the end of this year.

Ultimately, employees are likely to break even by April, with no lasting benefit to the tax deferral. However practice owners may still be tempted to use this method if employees are particularly struggling financially at the moment and need cash now. Unfortunately, while employees may break even, practice owners are actually taking on added risk by deferring their employees’ taxes, not to mention the additional time and effort of implementation.

If an employee does not pay back the deferred taxes, the practice owner is actually responsible for the repayment. This means that if an employee were to leave the practice for any reason by April (laid off, fired, or quit), or if they simply refuse to have the additional tax deducted, the practice owner is fully responsible, and would actually be charged interest and penalties and made liable to the IRS if it is not paid in full by April 30, 2021.

It is clear that this situation does not work out well in the long-term for your practice or your staff, but the good news is that the payroll tax deferral is completely optional. If any of your employees request to take advantage of this deferral, you should politely tell them that you are not participating in this program.