

Form W-2 Reporting When Deferring Withholding SS Taxes From Employees Pay

One of President Trump's Memorandums issued August 8, 2020, directs the Secretary of the Treasury to provide guidance permitting employers to defer withholding and paying Social Security taxes from employees' paychecks.

Notice 2020-65 provided guidance regarding the deferral and the employers' deposits.

Now IRS has posted on [irs.gov](https://www.irs.gov) directions on completing the Forms W-2 when this deferral has taken place. Box 3 should include all wages that were subject to Social Security tax withholding, including any wages that had the Social Security taxes deferred. Box 4 should include ONLY the Social Security taxes actually withheld during 2020. Do not include in Box 4 any Social Security tax withholding that was deferred.

BUT NOW THE REST OF THE STORY – As soon as possible after the employer has finished withholding the deferred amounts (ratably over the period from Jan 1 – Apr 30, per Notice 2020-65), the employer should complete Forms W-2c and W-3c to “correct” the original Forms W-2/W-3 to show the total “2020” withholding. As normal, the Forms W-2c should be given to the employees and the Form W-3c should be sent to the Social Security Administration.

EXAMPLE – Sharon was paid \$30,000 in wages during 2020. \$10,000 of these wages were paid during the period Sep 1-Dec 31 and Sharon's employer chose to defer withholding Social Security taxes during this period. The Form W-2 provided to Sharon for 2020 should show \$30,000 in box 3, Social Security wages, and \$1,240 in box 4, Social Security tax withheld ($\$20,000 \times 6.2\%$).

During the period Jan 1-Apr 30, 2021, Sharon's employer withheld the deferred Social Security taxes. Shortly after the deferred monies are withheld, Sharon's employer should issue a Form W-2c for calendar year 2020 to Sharon showing a “correction” in box 4 to \$1,860. Since Box 3 didn't change, no change is made to Box 3 on the Form W-2c.

Employers are also directed to provide the following instructions to Employees along with the Forms W-2c:

INSTRUCTIONS FOR EMPLOYEES - If you had only one employer during 2020 and your Forms W-2c, Corrected Wages and Tax Statement, for 2020 only shows a correction to box 4 (or to box 14 for employees who pay RRTA tax) to account for employee Social Security (or Tier 1 RRTA tax) that was deferred in 2020 and withheld in 2021 pursuant to Notice 2020-65, no further steps are required. However, if you had two or more employers in 2020 and your Form W-2c for 2020 shows a correction to box 4 (or to box 14 for employees who pay

RRTA tax) to account for employee Social Security (or Tier 1 RRTA tax) that was deferred in 2020 and withheld in 2021, you should use the amount of Social Security tax (or Tier 1 RRTA tax) withheld reported on the Form W-2c to determine whether you had excess Social Security tax (or Tier 1 RRTA tax) on wages (or compensation) paid in 2020.

If the corrected amount in box 4 of the Form W-2c for 2020 causes the total amount of employee Social Security tax (or equivalent portion of the Tier 1 RRTA tax) withheld by all of your employers to exceed the maximum amount (\$8,537.40) of tax that you owe, or increases an already existing excess amount of employee Social Security tax (or Tier 1 RRTA tax withheld), then you should file Form 1040-X, Amended U.S. Individual Income Tax return, to claim a credit for the excess Social Security tax (or Tier 1 RRTA tax) withheld. See the instructions to line 10 of Schedule 3 in the 2020 instructions for Form 1040 and Form 1040-SR for more information.

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065, fax 920-496-9111, ataxprof.com.

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