



The Daily Dish

Deferring Payroll Taxes and the Recession

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Eakinomics: Deferring Payroll Taxes and the Recession

Deferring payroll taxes is all the rage. The Coronavirus Aid, Relief, and Economic Security (CARES) Act permitted employers to defer their share of the Social Security payroll tax. Normally, employers are liable to remit 6.2 percent of taxable wages and salaries to the Treasury. The CARES Act eliminated that requirement through the end of 2020, but 50 percent of the deferred amount must be deposited by December 31, 2021, and the remaining amount by December 31, 2022.

This past weekend, the president issued an executive [memorandum](#), in which he is “directing the Secretary of the Treasury to use his authority to defer certain payroll tax obligations with respect to the American workers most in need. This modest, targeted action will put money directly in the pockets of American workers and generate additional incentives for work and employment, right when the money is needed most.”

Specifically, the president is directing Secretary Mnuchin to use his authority under [26 U.S. Code §7508A](#) to defer the 6.2 percent of taxable wages and salaries – up to a cap of \$104,000 per employee – that they would normally remit on behalf of their employees. This authority to defer the payment of taxes is the same authority that was used to change the income tax filing deadline from April 15 to July 15, and its legality is not in question.

So, unlike some other parts of the executive action, there is no question that this could happen. There are, however, two additional important questions. Do workers *want* this to happen? And, if it did happen, would it *work* to “generate additional incentives for work and employment”?

Why wouldn't workers want the deferral? Because the tax is only deferred – not eliminated – it will have to be paid in the future. In the worst case, this would be a lump sum on January 1, 2021. Or, as with the employer share, it could be spread out over the succeeding year or years. The Treasury will have to issue implementing guidance to determine that issue. Still, workers might not want a tax increase looming over their heads in the coming years and prefer to continue paying at the current rate now and in the future.

Indeed, as written the memorandum is unclear as to whether the employer *must* stop withholding. It could possibly be the case that employers would continue to withhold the taxes, hold them until the greater liability is due, and then send them to the Treasury. Right now, it is as clear as mud.

Why wouldn't it work? One channel the memorandum invokes is the idea of “money directly in the pockets” of Americans. True enough. But if I expect to have to write a check on January 1, I will have to save up a bit extra to be able to do it. If people do the math, they will simply save more exactly by the amount of the deferral. Or, as noted above, it could be that nothing changes for the worker because the employer continues to withhold the taxes. In either event, there will be no additional spending, no additional business, and no additional

employment.

The second channel is incentives for those out of work to get back to work. During the deferral, after-tax wages will be higher – again, *if* the employer stops withholding – and, other things being the same, the incentive to work a bit greater. But this is a temporary proposition (and the reverse is temporarily true in 2021), and not a powerful way to alter permanent decisions about work choices. One can't anticipate no impact, but it is a lot like treating the pandemic with ibuprofen.