

Accounting Aid Society
Instructions for
Deferred Payment of the Employer Share of the Social Security Tax
Tax Year 2020

BACKGROUND

Allows self-employed individuals to defer payment of the employer share of 2020 Social Security tax. Half of the deferred amount is due by December 31, 2021, and the other half by December 31, 2022.

The taxpayer cannot defer taxes that have already been paid.

The deferral, in part, is based on net earnings from 03/27/2020 through 12/31/2020. Use any reasonable method to divide net profit between 1/1/20 through 3/26/20 and 3/27/20 through 12/31/20.

- A reasonable method will accurately reflect the time when income was earned and deductible expenses were paid. In most cases, a proportional division of the amount reported based upon the number of days in each period will be considered reasonable.

For example, if self-employed all 12 months of 2020, an individual may allocate 22.5% of the individual's annual earnings from self-employment to the period from January 1, 2020, through March 26, 2020, and 77.5% of the individual's annual earnings to the period from March 27, 2020, through December 31, 2020.

For individuals choosing to defer payment, there is no indication from the IRS if vouchers or other communication will be sent to taxpayers, but it is believed that the IRS will send reminder notices at the end of 2021 and 2022.

For complete instruction, refer to the instructions for:

- 2020 Schedule SE, Self-Employment Tax
- 2020 Form 1040, Schedule 3

CONSIDERATIONS

The election to defer payment of the employer share of Social Security tax should be discussed and explained carefully with all taxpayers with self-employment tax. Explain:

- How making the election will affect their 2020 tax return, i.e., reduction in tax owed or increase in tax refund,
- That it is a deferral of payment, not a credit or reduction in tax. The deferred payment MUST be paid back, and
- The due dates for paying the deferred amount.

Before discussing the option with the taxpayer, we recommend completing both the federal and state sections in the software, including any city entries, and that the quality review of the return be completed. This will ensure a complete and accurate tax return, and the taxpayer will then be aware of the results of their federal, Michigan, and city return(s) before deciding on deferring payment.

Taxpayers with tax due on their return may want to consider the election if paying the employer share of Social Security tax by April 15 would present a hardship. However, the election is available to all taxpayers, those with tax due and those with a refund on the federal return

UNDERSTANDING the 2020 FORM 1040 TAX FORMS

It is important to understand, and to be able to explain to the taxpayer, how the amount that may be deferred is calculated and where amounts are reflected on the 2020 tax return. Please note the following:

- *Schedule SE, Self-Employment Tax* – The new Part III, Maximum Deferral of Self-Employment Tax Payments, allows the self-employed person to figure the maximum amount of self-employment tax payments which may be deferred
 - Line 18 – The portion of net profit that can be attributed to March 27, 2020, through December 31, 2020, is entered here
 - Line 26 – This is the maximum amount of self-employment tax payment that may be deferred. The amount on line 26 is entered on the Deferral Worksheet referenced below and may be further reduced depending on any taxes already paid (i.e., tax withheld, estimated tax payments, and amount paid with request for an extension to file) compared to total tax on the return.
- *Deferral Worksheet for Schedule H or Schedule SE filers—Schedule 3, line 12e* – This worksheet is in the instructions for Form 1040, Schedule 3. The worksheet is used:
 - Line 10 – To determine the amount of self-employment tax the individual may defer.
 - Line 11 – Enter the payment amount they are deferring. The individual can defer payment on up to the amount on line 10. The amount they elect to defer is also reported on Schedule 3, line 12e.
 - Lines 13 and 14 – To determine the payment amounts due by 12/31/2022 and 12/31/2021

(Note: The deferral worksheet has been added to our print set, AAS (E-File Return) Federal & State Print Set, and will print with tax returns where the individual has deferred payment of the employer share of the social security tax.)
- *Schedule 3, Additional Credits and Payments*
 - Line 12e, Deferral for certain Schedule H or SE filers – Reports the payment amount the taxpayer is electing to defer and that must be repaid by 12/31/2021 and 12/31/2022.
- Note: The full amount of self-employment tax will still be reported on line 4 of *Schedule 2, Additional Taxes*

TAXSLAYER INSTRUCTIONS

- 1) Before making any entries for deferral of self-employment tax, be sure to complete both the federal and state sections in TaxSlayer (including any city return entries). The quality review of the return should also be completed before making the election to defer payment.
- 2) Look at page 2 of Form 1040 to see if there is tax due or a refund on the return, and discuss the deferral election with the taxpayer. The Michigan and any city return(s) should also be reviewed with the taxpayer so that he/she is aware of all tax due/refund amounts on his or her 2020 return.
Note: The amount of self-employment tax that may be deferred won't be known at this point in the tax return. Completing the software sections below will show this amount.
- 3) If the taxpayer wants to consider the option, go to the *Other Taxes* section in TaxSlayer
- 4) Select *Self-Employment Tax* at the top of the Other Taxes menu
- 5) On the *Schedule SE Self-Employment Tax* page:
 - a) If Married Filing Jointly return, select the taxpayer or spouse name
 - b) Scroll to the bottom of the page to the *Social Security Deferral (Optional)* section. Complete the sections as shown in the TaxSlayer screenshot below.

Social Security Deferral (Optional)

According to the CARES Act, you may be eligible to defer a portion of your Social Security tax payment. Half of the deferred taxes must be paid back by Dec. 31, 2021, and the other half must be paid back by Dec. 31, 2022

I would like to defer a portion of my Social Security tax.

Note: Selecting Continue will take you to enter your preferred deferral amount

Deferrable self-employed net earnings (Max=24870)
Enter earnings from 03/27/2020 - 12/31/2020

\$ 19274

Deferrable church employee income earnings for self-employment tax (Max=0)
Enter earnings from 03/27/2020 - 12/31/2020

\$

CANCEL **CONTINUE**

(5c) Check the box indicating "I would like to defer a portion of my Social Security tax." After checking this box, the entry fields below will appear.

Hint: Maximum net earnings you can enter is listed here. This should be the net profit from Schedule C. In this example, \$24,870.

(5d) Enter the net profit from self-employment attributable to March 27, 2020, through December 31, 2020. In this example, \$19,274.

Use any reasonable method to divide net profit between 1/1/20 through 3/26/20 and 3/27/20 through 12/31/20. A reasonable method will accurately reflect the time when income was earned and deductible expenses were paid. In most cases, a proportional division of the amount reported based upon the number of days in each period will be considered reasonable.

For example, an individual may allocate 22.5% of the individual's annual earnings from self-employment to the period from January 1, 2020, through March 26, 2020, and 77.5% of the individual's annual earnings to the period from March 27, 2020, through December 31, 2020.

- Reasonable method if taxpayer worked all 12 months of 2020, and income and expenses were generally the same each month

(5e) Selecting Continue will bring up the *Schedule SE Deferral Amount* page.

6) Complete the *Schedule SE Deferral Amount* page as shown in the TaxSlayer screenshot below

Schedule SE Deferral Amount

Deferred Amount

The maximum amount you may be able to defer is calculated based on the amounts you entered. The final calculated amount you will be allowed to defer (Schedule 3, Line 12e) will be shown in the Tax Return Summary under Total Tax.

Amount you would like to defer this year (Max=1104)
Remember: you are required to pay this amount back.

\$ 1000

BACK **CONTINUE**

(6a) Taxpayer can enter a deferral amount up to the maximum amount shown above. In this example, the taxpayer elected to defer \$1,000 out of the maximum \$1,104.

Based on the amount of net earnings entered on the previous page and entries elsewhere in the tax return, this line, "Amount you would like to defer this year", will show the amount that may be deferred. In this example, \$1,104. This is the amount that is calculated on line 10 of the Deferral Worksheet for Schedule H or Schedule SE filers located in the instructions for Schedule 3 of Form 1040.

- 7) Discuss with the taxpayer the amount they may be able to defer this year. (In the example on the screenshot above, the amount is \$1,104.)
- 8) If the taxpayer elects **not** to defer payment, delete the entries made on the *Schedule SE Self-Employment Tax* page
- 9) If the taxpayer elects to defer payment, include a Note in TaxSlayer
- 10) Make sure the taxpayer is aware of the amounts that have to be paid by December 31, 2021, and by December 31, 2022. See the *Deferral Worksheet for Schedule H or Schedule SE filers—Schedule 3, line 12e* below. The worksheet will print with the AAS (E-file Return) Federal & State Print Set.

Deferral Worksheet for Schedule H or Schedule SE filers—Schedule 3, line 12e

Before you begin: Complete Schedule H (Form 1040) or Schedule SE (Form 1040).

Line 25 – Federal income tax withheld			
1a.	Enter the amount from line 25 of Form 1040 or 1040-SR	1a.	1900
b.	Enter the amount from line 26 of Form 1040 or 1040-SR	1b.	
c.	Enter the amount from line 9 of Schedule 3	1c.	
d.	Enter the amount from line 10 of Schedule 3	1d.	
e.	Add lines 1a through 1d	1e.	1900
Line 24 – total tax			
2.	Enter the amount from line 24 of Form 1040 or 1040-SR	2.	4092
3.	Enter the amount(s) from line 8b of your Schedule(s) H	3.	
4.	Add lines 2 and 3	4.	4092
5.	Enter the amount from line 8d of your Schedule(s) H	5.	
6.	Enter the amount from line 26 of your Schedule(s) SE	6.	1104
7.	Add lines 5 and 6	7.	1104
8.	Subtract line 7 from line 4	8.	2988
9.	Subtract line 8 from line 1e. If zero or less, enter -0-	9.	
10.	Subtract line 9 from line 7	10.	1104
You can defer payment on up to the amount on line 10 until 12/31/2021 or 12/31/2022 by reporting the amount on line 10 above (or a smaller amount) on line 12e of Schedule 3 (Form 1040). See instructions.			
11.	Enter the amount you reported on Schedule 3, line 12e	11.	1000
12.	Enter one-half of the amount on line 7 above	12.	552
13.	Enter the smaller of line 11 or line 12. <u>You must pay this amount by 12/31/2022</u>	13.	552
14.	Subtract line 13 from line 11. <u>You must pay this amount by 12/31/2021</u>	14.	448

- 11) We recommend printing an extra copy of the Deferral Worksheet and highlighting the amounts that have to be paid.
 - a) Note: Be aware that the maximum deferral amount (\$1,104) is used to figure the payment amounts. If the amount deferred is less than the maximum, then the payment amounts will not be equal payments. In the example above, the amount due on 12/31/2021 is \$448 (line 14), and the amount due on 12/31/2022 is \$552 (line 13).
- 12) Suggestion: If there is tax due on the return, print out two additional copies of Form 1040-V. White out the payment amount on each copy and write in the amounts from lines 13 and 14 of the Deferral Worksheet. Also indicate the due dates for each payment and give the taxpayer envelopes with a Form 1040 payment label on them. (Form 1040-V could also be completed online at irs.gov.)
 - a) It is believed the IRS will send reminder notices at the end of 2021 and 2022, but we suggest being proactive by providing the taxpayer with Forms 1040-V in the event they want to make an earlier payment.