

Payment of Deferred Self-Employment Tax

To my knowledge, District 7 did not use this option to defer SE Tax on any tax return. Did anyone actually defer SE Tax for anyone?

Prepared for AARP Tax-Aide State Training December 2021
Presented by Roger Vawter

Background

3-27-2020 - The Coronavirus Aid, Relief and Economic Security Act (CARES Act) allowed EMPLOYERS to delay payment of their portion (6.2%) of the social security tax on employee wages from 3-27-20 to 12-31-2020. Half of this deferral would be due by 12-31-2021 and the other half by 12-31-2022. This deferral only applies to the employer portion. Be aware that this EMPLOYER deferral has no effect on the taxpayer's Form W-2 and would be on no consequence to an employee's tax return.

This allowance was also extended to self-employed taxpayers such that they could defer the payment of 50% of their Social Security tax on net earnings from self-employment income. The 50% represents the equivalent EMPLOYER amount. Similarly, half of this deferral would be due by 12-31-2021 and the other half by 12-31-2022. Keep in mind that the self-employment tax is the self-employed payment of Medicare and Social Security. A key difference is that the self-employed pay both the employer and employee halves.

You were allowed to determine the exact amount of self-employed income from the period 3-27-2020 to 12-31-2020 or use the IRS allowed rate of 77.5% of total self-employed income for the year. The 77.5% could be used as a reasonable estimate for the applicable time period.

2020 Tax Preparation

The 2020 Self-Employed COVID Worksheet had instructions and entries at the top of the Worksheet to calculate a deferral amount that could then be entered in TaxSlayer.

The 2020 Schedule SE, Self-Employment Tax, added a Part III to calculate the Maximum Deferral of Self-Employment Tax Payments. The form then referred you to line 12e of 1040 Schedule 3 for additional instructions. These instructions provided a Deferral Worksheet and this Worksheet performed the deferral calculations. This included the amount you deferred in 2020 and the required payments by 12-31-2021 and 12-32-2022.

If you choose to defer any amount, it would show as a "payment" on Schedule 3, Line 12e.

The required TaxSlayer entries were as follows:

Navigate to: TaxSlayer Federal Section / Other Taxes / Self-Employment Tax

- check the block to indicate “I would like to defer a portion of my Social Security Tax”
- enter the “Deferable self-employment net earnings” - Use any reasonable method provided by the taxpayer to determine this amount or use the IRS allowed 77.5%.
- Continue to Schedule SE Deferral Amount and enter the amount you would like to defer in 2020. An allowed maximum is calculated by TaxSlayer and the taxpayer could choose to defer less than the allowed maximum.

The print set would then include the completed Schedule SE and the Deferral Worksheet. The required 2021 and 2022 payments are shown on the Deferral Worksheet. The Schedule 3 would have the 2020 deferral amount shown on Line 12e as a “payment”.

2021 Tax Preparation

Self-employment taxes cannot be deferred in 2021 as they were in 2020.

Review the Intake/Interview form and the 2020 tax return to see if this applies. Check for an entry on Schedule 3 Line 12e for deferral of SE tax. If applicable, there should also be a Deferral Worksheet that shows the required 2021 and 2022 payments.

Portal Training Slide 43 Tax Law and Scope Changes TY 21 Rel. 1, page 45 – Partial Self-Employed Tax Deferral:

- IRS is sending letters, vouchers and envelopes for payments due by 12-31-2021.
- Nothing to do on the 2021 tax return.

From the IRS Website:

<https://www.irs.gov/newsroom/how-self-employed-individuals-and-household-employers-repay-deferred-social-security-tax>

How self-employed individuals and household employers repay deferred Social Security tax

COVID Tax Tip 2021-96, July 6, 2021

The CARES Act allowed self-employed individuals and household employers to defer the payment of certain Social Security taxes on their Form 1040 for tax year 2020 over the next two years. Half of the deferred Social Security tax is due by December 31, 2021, and the remainder is due by December 31, 2022.

How individuals can repay the deferred taxes

Individuals can pay the deferred amount any time on or before the due date. They:

- Can make payments through the Electronic Federal Tax Payment System or by credit or debit card, money order or with a check.

- Should be separate payments from other tax payments to ensure they are applied to the deferred tax balance on the tax year 2020 Form 1040 since IRS systems won't recognize the payment for deferred tax if it is with other tax payments or paid with the current Form 1040.
- Should designate the payment as "deferred Social Security tax."

Individuals making deferred Social Security tax payments in EFTPS should select 1040 US Individual Income Tax Returns and deferred Social Security tax for the type of payment. They must apply the payment to the 2020 tax year where they deferred the payment. Taxpayers can visit [EFTPS.gov](https://www.irs.gov/eftps) for details.

Those using Direct Pay should select the reason for payment "balance due." If they are using the Card Program to pay with a debit or credit card, they should select "installment agreement." They should apply the payment to the 2020 tax year where the payment was deferred.