**Overview of Executive Action on Deferring Employee Payroll Taxes**

On Saturday, August 8, President Trump signed four executive actions in response to a Congressional stalemate on the next round of COVID-19 relief. This brief covers the [memorandum](https://www.whitehouse.gov/presidential-actions/memorandum-deferring-payroll-tax-obligations-light-ongoing-covid-19-disaster/) deferring some employees’ payroll taxes to Social Security without affecting the program.

**Background on payroll taxes:**

* There are two types of payroll taxes:
  + Social Security rate is 12.4% on wages capped at $137,700—half is paid by the employer, half is paid by the employee (though employers typically pass on this tax in the forms of lower wages and higher prices).
  + Medicare rate is 1.45% for both the employer and employee with no wage cap.
* Employee payroll taxes are withheld by employers and paid on their behalf.
* The CARES Act (March) deferred payments of employer payroll taxes until either 2021 or 2022.

**Details of the August 8 memorandum on deferring payroll taxes to Social Security:**

* Defers employee payroll taxes to Social Security from September 1 to December 31or until an unspecified later date, without penalty, interest, or additional tax.
* Applies only to those earning before tax less than $4,000 biweekly ($104,000 annually).
* Requests that the Secretary of the Treasury “explore avenues, including legislation” to permanently eliminate these deferred payroll taxes.
* The stated intention of this action are to:
  1. “put money directly in the pockets of American workers”
  2. “generate additional incentives for work and employment”

**Economic effects questionable from increased uncertainty & fiscal effects are uncertain:**

* This is effectively a no-interest loan from the government (i.e., taxpayers) to workers, with uncertainty about if, and when, it will be repaid. The change does not affect incomes for unemployed workers and is unlikely to increase incomes of employed workers who will need to save any income increase to eventually repay the payroll taxes unless cut later and made retroactive.
* The action could add about $150 billion to the FY21 budget deficit, which weighs on the economy, depending on whether Congress cuts the payroll taxes owed as funds will be transferred from the General Fund to cover the reduction in payroll taxes to Social Security.
* There is much uncertainty from the memorandum by employers about how they will handle the employee payroll tax deferral. It’s not clear when the deferred taxes are due or how they will be paid (directly by employees or through employers). These questions should be resolved soon, as Secretary Mnuchin recently indicated employers can choose whether to withhold the taxes.
* The memorandum doesn’t change the cost of hiring employees, so it will not increase the number of jobs available. That is inherently constrained by limited business activity from government-mandated lockdowns.

**Recommendation to improve the economic picture:**

* Safely reopen society by ending state and local government-mandated lockdowns.
* Get businesses operating and workers working again, such as with [TPPF’s Recovery Act](https://files.texaspolicy.com/uploads/2020/07/21103403/Beauchamp-Rehire-America-Workplace-Recovery.pdf).
* Eliminate wasteful programs to rein in excessive government and end unnecessary regulations.