It's time to pay your deferred Social Security taxes

If you deferred depositing your 6.2% share of Social Security taxes last year, the time to make your first payment is approaching quickly. Half your deferral is due Jan. 3, 2022; the other half on Jan. 3, 2023.

Fail to pay back either installment in full by their respective due dates and the IRS will cancel the entire arrangement, going back to the original deposit date.

Greetings from the IRS

You probably received a CP256V Notice from the IRS reminding you of your deferrals and the make-up deposit dates. You'll receive a separate notice for each quarter you deferred the deposit of your taxes. The IRS' notices, however, may not correspond to your records for two reasons:

- If you were one of the few private employers that also deferred the employees' share of Social Security taxes, the notice will reflect the employees' deferral, as well (those make-up deposits are also due Jan. 3, 2022).
- The notice may mention the deposit dates as Dec. 31, 2021, and Dec. 31, 2022. The IRS has previously said these dates are holidays in the District of Columbia, so the due dates are postponed to Jan. 3, 2022, and Jan. 3, 2023.

Figuring the amount to pay back

Your make-up payments must be made separately from your other tax deposits. This ensures the IRS will apply the make-up payment to your deferred tax balance. To make a make-up deposit using EFTPS, select *deferral payment* and change the date to the applicable quarter for the payment. *Upshot:* Each quarter's deferral must be deposited separately.

Since you must figure the make-up deposit quarterly, how much do you have to pay back by those Jan. 3 due dates? Let's take an example.

Sparky's share of Social Security taxes for the first quarter of 2020 was $250,000; it deposited those taxes. Sparky deferred $750,000 per quarter for the second, third and fourth quarters of 2020. *Sparky's total deferral:* $2,250,000.

Right way *(figured per quarter):* Sparky has to pay $375,000 by Jan. 3, 2022, and Jan. 3, 2023:

- $2,250,000 ÷ 3 quarters = $750,000
- $750,000 ÷ 2 (half the deferral) = $375,000

Wrong way *(figured annually):* Sparky has to pay $333,333.33 by Jan. 3, 2022, and Jan. 3, 2023:

- $2,250,000 – $250,000 deposited for the first quarter = $2,000,000

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- $2,000,000 ÷ 3 quarters = $666,666.66
- $666,666.66 ÷ 2 (half the deferral) = $333,333.33

The difference—$41,666.67—isn't great, considering the total amount Sparky deferred, but it will be enough for the IRS to invalidate the entire deferral. Sparky's failure-to-deposit penalty would be $225,000 (10% × $2,250,000).

Curveball

Sparky's make-up deposit is evenly split, because it chose to pay each installment in full by the due date.

The make-up deposit may not be evenly split if, during 2020, you deferred less than you could have. So let's take another example.

Speedy was eligible to defer $200,000, but it deposited $150,000 of the $200,000 it could have deferred and deferred $50,000 for the second, third, and fourth quarters of 2020. *Result:* Speedy doesn't need to pay anything back by Jan. 3, 2022, since 50% of its eligible deferral ($100,000) had already been paid and was first applied against the amount due on this date. Speedy must pay the remaining $50,000 by Jan. 3, 2023.

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