

Reporter

A Newsletter for Employers

Spring 2021

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Claiming the employee retention credit in the first and second calendar quarters 2021

IRS issued guidance for employers claiming the employee retention credit under the Coronavirus Aid, Relief, and Economic Security Act modified by the Taxpayer Certainty and Disaster Tax Relief Act of 2020.

[Notice 2021-23](#) explains the changes for the first and second calendar quarters of 2021, including:

- the increase in the maximum credit amount
- the expansion of the category of employers that may be eligible to claim the credit
- modifications to the gross receipts test
- revisions to the definition of qualified wages
- new restrictions on the ability of eligible employers to request an advance payment of the credit

Eligible employers can now claim a refundable tax credit against the employer share of Social Security tax equal to 70% of the qualified wages they pay to employees after December 31, 2020, through June 30, 2021. Qualified wages are limited to \$10,000 per employee per calendar quarter in 2021. The maximum employee retention credit available is \$7,000 per employee per calendar quarter, for a total of \$14,000 for the first two calendar quarters of 2021.

Employers can get the employee retention credit for the first two calendar quarters of 2021 before filing their employment tax returns by reducing employment tax deposits. Small employers may request advance payment of the credit on [Form 7200, Advance of Employer Credits Due to COVID-19](#) after reducing deposits. Some limits and eligibility requirements apply. In 2021, advances are not available for large employers. Instructions on how to calculate and claim the employee retention credit for the first two calendar quarters of 2021 are available in Notice 2021-23.

Under the American Rescue Plan Act of 2021, the employee retention credit is available to eligible employers for wages paid during the third and fourth quarters of 2021. The Department of the Treasury and the IRS will provide further guidance on this later.

More coronavirus relief [information for businesses](#) is available on IRS.gov. [IRS](#)

Work Opportunity Tax Credit

The Work Opportunity Tax Credit is a federal tax credit available to employers for hiring individuals from certain [targeted groups](#) who have consistently faced significant barriers to employment.

The Consolidated Appropriation Act, 2021 (Section 113 of Division EE P.L. 116-260), authorized the extension of the Work Opportunity Tax Credit until December 31, 2025.

[Notice 2020-78](#) issued on December 11, 2020, provides transition relief for employers that hired certain individuals residing in empowerment zones by extending the 28-day deadline for employers who submit a certification request for an individual hired between January 1, 2018, and December 31, 2020. [IRS](#)

What employers need to know about repayment of deferred payroll taxes

To give people a needed temporary financial boost, the Coronavirus, Aid, Relief and Economic Security Act allowed employers to defer payment of the **employer's** share of Social Security tax. [IRS Notice 2020-65](#) allowed employers to defer withholding and payment of the **employee's** Social Security taxes on certain wages paid in calendar year 2020. Employers must pay back these deferred taxes by their applicable dates.

The **employee** deferral applied to people with less than \$4,000 in wages every two weeks, or an equivalent amount for other pay periods. It was optional for most employers, but it was mandatory for federal employees and military service members.

Repayment of the employee's portion of the deferral started January 1, 2021 and will continue through December 31, 2021. Payments made by January 3, 2022, will be timely because December 31, 2021, is a holiday. The employer should send repayments to the IRS as they collect them. If the employer does not repay the deferred portion on time, penalties and interest will apply to any unpaid balance.

Employees should see their deferred taxes in the withholdings from their pay. They can check with their organization's payroll office for details on the collection schedule.

How to repay the deferred taxes

Employers can make the deferral payments through the [Electronic Federal Tax Payment System \(EFTPS\)](#) or by [credit card or debit card, money order or with a check](#). These payments must be separate from other tax payments to ensure they are applied to the deferred payroll tax balance. IRS systems won't recognize the payment if it is with other tax payments or sent as a deposit.

EFTPS will soon have a new option to select **deferral payment**. The employer selects **deferral payment** and then changes the date to the applicable tax period for the payment. Employers can visit [EFTPS.gov](#), or call [800-555-4477](#) or [800-733-4829](#) for details.

If the employee no longer works for the organization, the employer is responsible for repayment of the entire deferred amount. The employer must collect the employee's portion using their own recovery methods.

More information:

- [Notice 2020-65 PDF](#)
- [Notice 2021-11 PDF](#)
- [Paying Your Taxes](#)

IRS Lead Development Center working to combat abuse

Identifying and stopping abusive promoters and preparers as early as possible is a high priority to the IRS. The IRS would like help to identify promoters of “too good to be true” abusive tax schemes and tax preparers using illegal schemes to avoid paying taxes.

Abusive tax schemes cause harm to both the federal government and the promoter’s clients who participate in these schemes. The Lead Development Center’s mission is to identify and deter individuals who promote abusive tax schemes or prepare abusive returns.

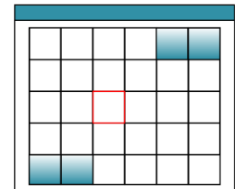
Taxpayers should be careful not to be taken in by promoters of tax schemes. Those who do get involved in the scams peddled by abusive tax preparers or promoters could face a heavy tax burden that include not only taxes owed, but the addition of substantial penalties and interest.

Anyone who suspects a tax scheme can use the [Report Suspected Abusive Tax Promotions or Preparers](#) form to make a referral to the IRS. There is more information about the role of the Lead Development Center and abusive tax schemes at [IRS.gov/scams](https://www.irs.gov/scams). [IRS](#)

Online Tax Calendar highlights 2021 deadlines

The customized IRS tax calendar contains important tax dates to make sure taxpayers don’t miss a deadline.

The IRS Online Tax Calendar is available to customers 24 hours a day and available on a mobile device.



The calendar download is virtually instantaneous – taking less than a minute to transfer.

Businesses can use the online tax calendar as a reminder by customizing the calendar to suit their needs.

Users can alter the calendar sorting by general employment type, excise, monthly depositor, semiweekly depositor, or Tax Exempt & Government Entities. [IRS](#)

Social Security is here to help! You can help too

The Social Security Administration (SSA) remains committed to providing uninterrupted benefits and vital services the public relies on, especially during the current coronavirus pandemic. As an important part of the community, SSA is asking to help share important information with others.

Despite challenges government and businesses face at this time, SSA wants people to know they remain ready and able to help them by phone with most Social Security matters.

Anyone can speak with a representative by calling the local Social Security office or the national toll-free number (800) 772-1213. SSA provides local office phone numbers conveniently online with the [Social Security Office Locator](#).

Although SSA offices are not providing service for walk-in visitors, SSA staff may be able to schedule an appointment for limited, critical issues if they cannot be resolved by phone and cannot get the information or conduct business online.

SSA encourages people to call or take advantage of the secure and convenient [online services](#) to:

- Apply for [Retirement](#), [Disability](#) and [Medicare](#) benefits,
- Check the status of an application or appeal,
- Request a replacement Social Security card (in most areas),
- Print a benefit verification letter, and
- Much more.

Most business with SSA can be done online, but SSA is aware many people still rely on phone or in-person help. That's why SSA wants people to know they can still count on help by phone.

Lastly, securing medical and other documentation can be difficult due to pandemic deadlines being extended wherever possible. SSA's pandemic [frequently asked questions has helpful information](#) and SSA encourages people to please share this information. [ssa](#)

Choosing a retirement plan

Small employers may be too busy growing their business to think about starting a retirement plan. Retirement plans allow participants to invest now for financial security in retirement.

A retirement plan has benefits for both the employer and employees:

- Employer contributions are tax deductible.
- Assets in a plan grow tax-deferred to retirement.
- A plan helps attract and retain employees.
- Small employers may receive a [tax credit for new plans](#) of up to \$5,000 per year for three years for the cost of setting up a new plan.
- A [Saver's Credit](#) of up to 50% for contributions made by low- to moderate-income employees.

Some plans may be a better fit than others, depending on many factors. The IRS has several new sources to help small employers find the right retirement plan for themselves and their employees.

- There is a plan comparison chart in [Choosing a Retirement Solution for Your Small Business](#)
- A new webinar on IRS videos, [Retirement Plans for Small Employers and Self-Employed](#), discusses the key features of retirement plans.

- A new webpage, [Retirement Plans for Small Entities and Self-Employed](#), has information on choosing and maintaining a plan, filing requirements, how to find and fix errors, and a list of plan resources. IRS

IRS releases 2021 Publication 15-T

The IRS has released the 2021 [Publication 15-T, Federal Income Tax Withholding Methods](#). The publication describes how to figure federal income tax withholding using both the percentage method and the wage bracket method and also describes alternative methods to figure withholding. The publication explains how to withhold income tax based on pre-2020 Forms W-4 and 2020 or later Forms W-4.

Optional bridge entries

The publication provides an optional computational bridge that employers can use to treat 2019 or earlier Forms W-4 as if the employees had furnished redesigned Forms W-4. This bridge allows employers to use computational procedures and data fields for a 2020 and later Form W-4 to arrive at the equivalent withholding for an employee that would have applied using the computational procedures and data fields on a 2019 or earlier Form W-4.

Four adjustments are required to use this computational bridge. The entries provide for treating employees as having made an entry:

1. on Line 1(c) (filing status) of the redesigned Form W-4 that most accurately reflects the employee's entry on Line 3 (marital status) of a 2019 or earlier Form W-4. An employee will be treated as having selected "single or married filing separately" on the redesigned form if the employee selected either "single" or "married - but withhold at higher single rate" on a 2019 or prior Form W-4. An employee will be treated as having selected "married filing jointly" on the redesigned form if the employee selected "married" on a 2019 or prior Form W-4. Employees cannot have a filing status of "head of household" using this computational bridge.
2. also in Step 4(a) (other income –not from jobs) on the redesigned Form W-4 based on the marital status on Line 3 of a 2019 or earlier Form W-4. Enter \$8,600 if the employee's filing status is "single or married filing separately" or \$12,900 if the employee's filing status is "married filing jointly." Entering the value will help offset the full basic standard deduction that has otherwise been incorporated in tables related to the various filing statuses in Step 1(c) of the redesigned Form W-4.
3. in Step 4(b) (deductions) of the redesigned Form W-4 to replicate the effect of allowances claimed on Line 5 (number of allowances) of a 2019 or earlier Form W-4. Multiply the number of allowances claimed on Line 5 of a 2019 or earlier Form W-4 by \$4,300 and enter the result in Step 4(b) of the redesigned Form W-4.
4. in Step 4(c) (extra withholding) of the redesigned Form W-4 to replicate the effect of any additional amount that the employee requested to have withheld using Line 6 (additional amount withheld from each paycheck) on a 2019 or earlier Form W-4. Enter any additional amount the employee requested to have withheld from each paycheck on Line 6 of a 2019 or earlier Form W-4 in Step 4(c) of the redesigned Form W-4.

Warning about using bridge entries

The bridge entries apply only for Forms W-4 properly in effect on or before December 31, 2019, and that continue in effect. The IRS said the bridge entries are not intended to continue 2019 or earlier computational procedures, including the use of withholding allowances, for redesigned Forms W-4. If an employee is either required, or chooses, to furnish a new Form W-4, the use of the bridge entries by an employer does not change the requirement that the employee must use the current year's revision of the Form W-4 when furnishing a new Form W-4.

The new bridge only applies to pre-2020 Forms W-4 that were provided to employers before 2020. No employee may now complete a pre-2020 Form W-4.

Lock-in letters

The IRS will not reissue lock-in letters or modification notices solely because of the redesign of the Form W-4. Employers may use the optional bridge entries to comply with the requirement to withhold based on the maximum withholding allowance and filing status permitted in a lock-in letter or modification notice for lock-in letters based on 2019 or earlier Forms W-4.

For example, for calendar year 2021, based on a withholding allowance of \$4,300, an employer determining withholding for an employee subject to a lock-in letter that uses 2019 computational procedures and instructs the employer to use a filing status of single and a maximum withholding allowance of zero allowances, may comply with the lock-in letter by using these bridge entries on a 2021 Form W-4:

- An entry of single or married filing separately in Step 1(c),
- An entry of \$8,600 in Step 4(a) to further account for the effect of the withholding instructions directing an employer to withhold from the employee using the single filing status, and
- An entry of \$0 in Step 4(b) to replicate the effect of the employee's maximum withholding allowance of zero.

Nonresident aliens

Employers may use the computational bridge to convert a nonresident alien employee's 2019 or earlier Form W-4 to a 2020 or later Form W-4. However, for the second adjustment of the computational bridge, employers should always enter \$4,300 in Step 4(a) on a 2020 or later Form W-4. If an employer converts a nonresident alien employee's 2019 or earlier Form W-4 to a 2020 or later Form W-4, it should use Table 2 (on page 4 of [Publication 15-T](#)) when adding an amount to wages for figuring federal income tax withholding.

Withholding on periodic payments of pensions

Employers should use Worksheet 5 and the percentage method tables in that section to figure withholding on periodic payments of pensions or annuities. If the recipient does not submit Form W-4P, Withholding Certificate for Pension or Annuity Payments, withholding on periodic payments is calculated as if the recipient were married claiming three allowances.

Reminder on withholding allowance value

Starting in 2021, the IRS will no longer index the withholding allowance to reflect cost-of-living adjustments to what would have been the value of a personal or dependency exemption in IRC §151(b) prior to enactment of the Tax Cuts and Jobs Act. The withholding allowance is fixed at \$4,300 in 2021. Employers that implement the bridge entries starting in 2021 will not have to make any adjustments to employees' withholding entries that the employee is treated as having made on the redesigned Form W-4 within their system unless the employee furnishes a new Form W-4. **APA**



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