County Commission discusses potential tax deferral

The McKinley County Board of Commissioners held a special meeting Sept. 8 to discuss a potential deferral of employment tax deposits and payments from Sept. 1 through Dec. 31.

This proposal comes from the President's authorization dated Aug. 8 and the IRS Administrative Procedure Notice 2020-65, where employers can elect to defer the deposit and payment of employees' share of Social Security Taxes.

County Attorney Doug Decker said this deferral would essentially be a "tax holiday."

"This is from a Presidential Directive through the Secretary of Treasury to find ways to give employees an extra boosted income," Decker said. "This does not change the law, so those taxes are going to be owed no matter what."

The Social Security withdrawal, which shows up on a pay stub as "FICA," is made up of two parts: one is the employer's match and the second part is the employee's withdrawal from their paycheck as withholding. The combined payment is then sent to the IRS.

The tax holiday would give employers the chance to allow employees to keep their part of the payment. The employer would still have to send their portion of the payment in every pay period, Decker said.

Then starting on April 1, 2021, those employees would have to pay that extra tax back, meaning the employee would receive a double withholding amount on each paycheck during pay periods from Jan. 1 through April 30, 2021.

Decker said there is a hope that Congress will forgive the deferred tax amount, and the Secretary of the Treasury will find ways to make that happen.

As of Sept. 8, this is a decision that has to be made by the County Commissioners before it can be given to employees that want to sign up for the deferral, Decker said.

The county’s recommendation was to not participate in this deferral process.

Commissioner Bill Lee said this topic had been discussed previously in the Gallup-McKinley County Chamber of Commerce.

“It really is a catch-22 for the county,” Lee said. “We would like to put more money back in people’s pockets, but the bill would come due. The money could be forgiven, but there’s no guarantee of that.”

Having to repay the full amount later on would likely put a greater strain on people, Lee said.

County Chairperson Billy Moore agreed the tax deferral sounds like a catch-22.

“I think the amount withheld from each paycheck would be very minimal for the employee,” Moore said. “But then it would be a burden to take double that amount out starting in January. It sounds good in theory, but in the end, when they have to start paying that number back, they're going to see it can be difficult for them."

Finance Director Sara Saucedo said the average Social Security Tax percentage is 6.2 and Medicare Taxes are 1.45 percent of the base gross. If any county employee makes less than $2,000 per pay period, they would be excluded from this deferral.

If the deferrals are given, those tax rates would increase to 12.4 percent for Social Security and Medicare would turn to 2.9 percent starting in January.

"I really feel this decision is up to an individual," Lee said. "It puts an extra strain on the county payroll department to figure this out. I think it should be up to the employees to choose if they want to do this, but there should be stronger language in the notice they sign that this could basically come back to bite them, that you'll see less money in your paycheck starting in January."

County Manager Anthony Dimas Jr. said a few employees are already taking the deferrals, and the process would have to be redesigned and tailored for the whole county. But Dimas and Decker think doing that might be a "nightmare."

Saucedo said it would not take a lot more time to process payroll if this deferral is adopted, but agreed the possibility of increased financial strain on employees spurred her to recommend the county not implement the deferrals.

"The employees right now are used to having an amount being taken out of their paychecks," Saucedo said. "So to have that amount deferred, but then come back doubled starting in January would be hard for them, because a lot of them will probably need money after the holidays and before they file their tax returns next year."

Lee said it will come down to a decision by the federal government on whether or not they will forgive the deferred amount come January, which makes it an uncertainty.

“You’re rolling the dice with the federal government on this one,” Lee said.

As a result, the other speakers during the meeting felt this was not a risk worth taking.

“I just don’t think we should gamble with our staff because they might have to pay those deferred taxes back,” Dimas said. “It could all come back to bite them.”

The motion was made to not adopt the countywide tax deferrals, which then carried with a 2-1 vote.