TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Most Employers Paid Their Deferred Social Security Taxes But Some Penalties Were Incorrect

August 27, 2025

Report Number: 2025-406-049

TIGTACommunications@tigta.treas.gov | www.tigta.gov

HIGHLIGHTS: Most Employers Paid Their Deferred Social Security Taxes But Some Penalties Were Incorrect

Final Audit Report issued on August 27, 2025 **Report Number 2025-406-049**

Why TIGTA Did This Audit

This audit is a continuation of our review of the IRS's implementation of tax provisions included in the Coronavirus Aid, Relief, and Economic Security Act, which allowed employers and self-employed individuals to defer payment of their Social Security tax. The overall objective of this review was to evaluate the IRS's efforts to ensure that taxpayers pay their deferred Social Security tax as required.

Impact on Tax Administration

The deferral of Social Security taxes was a temporary legislative relief for business and self-employed taxpayers during the pandemic. These deferred taxes were expected to be paid by December 2021 or December 2022.

What TIGTA Found

As of July 2024, nearly 1.1 million employers deferred approximately $133 billion in Social Security taxes for Tax Year 2020. An estimated $131 billion (98 percent) was paid. However, 167,373 employers had approximately $2 billion (2 percent) in unpaid deferrals. According to the IRS, as of May 2025, there were approximately 10,000 employers remaining who had not paid their deferral, and the IRS had yet to manually adjust their account which would subject the unpaid amounts to standard collection processes.

Employers that did not timely pay their deferred Social Security taxes by the December 2021 and December 2022 due dates, or by the time the IRS manually adjusts their account, are subject to the IRS's standard collection processes. Accounts with unpaid deferrals are also subject to the assessment of penalties such as failure to pay tax and failure to make deposit of taxes penalties. As of July 2024, the IRS assessed an estimated $591 million in penalties and interest on 403,711 tax accounts for employers who failed to timely pay their deferred Social Security taxes.

However, we found that the IRS incorrectly assessed manual Failure to Deposit penalties totaling $73.7 million on 9,548 business tax accounts. These employers had credits, such as payments or refund offsets available, but these transactions did not post timely to their tax accounts. The delay in posting these transactions caused the employer to have a delinquent deferral and resulted in the penalty being overstated.

What TIGTA Recommended

We recommended that the IRS review the population of 9,548 business tax accounts with late posted payments and credits that resulted in overstated Failure to Deposit penalties, ensuring that the penalties are corrected for those accounts.

The IRS agreed with this recommendation and will ensure that the penalties are adjusted on the identified accounts.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

August 27, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Most Employers Paid Their Deferred Social Security Taxes But Some Penalties Were Incorrect (Audit No.: 2024406006)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) ongoing efforts to ensure that individual and business taxpayers pay their deferred Social Security taxes as required. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Tax Compliance and Enforcement*.

Management's complete response to the draft report is included as Appendix IV. If you have any questions, please contact me or Deann L. Baiza, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Appendices

Background

The Social Security tax is a federal payroll tax imposed on both employees and their employers to fund Social Security.[1] Employers must withhold a portion of the tax from their employees' wages and remit this to the Internal Revenue Service (IRS) on their behalf.

Under Section 2302 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), employers could defer the full amount of the employer share of the Social Security tax paid between March 27, 2020, and December 31, 2020.[2] Self-employed individuals could defer 50 percent of the total Social Security tax for wages paid during this same period. Additionally, in August 2020, the President directed the Secretary of the Treasury to expand the deferral to include the employee's portion of the Social Security tax or the Railroad Retirement tax equivalent for wages paid from September 1, 2020, through December 31, 2020, in order to increase employee paychecks.[3] Throughout the remainder of this report we collectively refer to employers and self-employed individuals as "employers," unless otherwise specified.

The Tax Year 2020 tax rate for the Social Security tax was 12.4 percent, either paid equally by the employer and employee, or in total by self-employed individuals. See Appendix III for a list of Tax Year 2020 forms which employers could use to report deferred Social Security taxes.

Payment of the deferred Social Security tax

Employers who deferred Social Security taxes were required to pay the deferred amount. When employers reported deferred Social Security taxes the IRS placed a temporary credit equal to the amount of the deferral on employers' accounts. As employers made payments, the temporary credits were reversed in an amount equal to the payment. The temporary credit for deferred taxes remained on the employer's account until either the full deferral was paid, or the IRS manually reversed any unpaid amounts. The due date to pay the deferred Social Security tax depended on the type of tax that was deferred, *i.e.*, the employer or employee portion. Figure 1 explains the Social Security tax deferral payment requirements and due dates.

[1] Social Security is known as the Old-Age, Survivors, and Disability Insurance program administered by the Social Security Administration, which is financed through a payroll tax.

[2] Pub. L. No. 116-136, 134 Stat. 281 (2020) (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

[3] Memorandum for the Secretary of the Treasury, *Deferring Payroll Tax Obligations in Light on the Ongoing COVID-19 Disaster,* Presidential Document 2020-17899 (August 8, 2020).

Figure 1: Payment Requirements Differ Based On the Type of Social Security Tax Deferred

Payment Due Date	Business Employers	Self-Employed Individuals
December 31, 2021	One-half of the employer's eligible deferral amount, *i.e.*, maximum deferral. All employee Social Security tax deferred.	One-half of the employer's eligible deferral amount, *i.e.*, maximum deferral.
December 31, 2022	Remaining balance of the employer's portion of the Social Security tax deferral.	Remaining balance of the employer's portion of the Social Security tax deferral.

Source: Coronavirus Aid, Relief, and Economic Security Act.

The amount of deferral due on December 31, 2021, for either business employers or self-employed individuals, would have been less than one-half the eligible maximum if payments were made prior to the due date or less than 50 percent of the maximum was deferred. The following hypothetical example illustrates the calculation of the deferred Social Security tax an employer was required to pay by December 31, 2021.

> The employer's share of Business A's Social Security tax for the third quarter of Tax Year 2020 was $160,000 and was the maximum amount Business A could defer. Business A paid (did not defer) $60,000 in Social Security tax for the third quarter of Tax Year 2020 and deferred $100,000.
>
> The actual amount Business A was required to pay by December 31, 2021, was $20,000, which is one half of the maximum deferral amount ($160,000 / 2 = $80,000), less any Social Security taxes that were not deferred ($80,000 - $60,000 = $20,000). The remaining unpaid deferral of $80,000 was due by December 31, 2022.

The IRS issued informational notices to employers prior to the December 2021 and December 2022 due dates reminding them of the deferred Social Security tax amount that was coming due.

Adjusting accounts for employers who did not timely pay the deferred Social Security tax

Employers that do not timely pay their deferred Social Security taxes by the December 2021 and December 2022 due dates, or by the time the IRS manually adjusted their account, are subject to the IRS's standard collection processes. Accounts with unpaid deferrals are also subject to the assessment of penalties such as failure to pay tax and failure to make deposit of taxes penalties. The IRS notifies employers when penalties and interest are assessed on their tax account and interest continues to accrue on the unpaid deferral until the employer pays the required amount. Business employers could also be assessed manual Failure to Deposit (FTD) penalties on the employment tax returns where the deferred Social Security tax was initially claimed. Employment tax returns are generally restricted from a computer calculation of FTD penalties and instead are manually assessed and adjusted.

Results of Review

Most Employers Paid Their Deferred Social Security Tax

Nearly 1.1 million employers deferred approximately $133 billion in Social Security taxes for Tax Year 2020. An estimated $131 billion (98 percent) was subsequently paid as of July 2024. The remaining unpaid deferral of approximately $2 billion is associated with 184,442 tax accounts belonging to 167,373 employers.[4]

Employers paid 98 percent, or $131 billion, of deferred Social Security Taxes.

The IRS manually adjusts the unpaid deferral balance for employers who do not timely pay their deferred Social Security tax by reversing the temporary credit. Due to resource constraints and the manual nature of the adjustments, the IRS can only treat a limited number of unpaid tax accounts per month.

Reversing the temporary credit creates a tax delinquency and places the account in a balance due status subjecting the employer to the IRS's standard collection processes. For tax accounts that are already in collection, the IRS adds the unpaid Social Security tax deferral amount to the total amount to be collected on the account. Once reversed, each of the 184,442 unpaid tax accounts would be subject to the IRS's standard collection processes. According to the IRS, as of May 2025, there were approximately 10,000 manual adjustments remaining to be processed for employers who had not paid their deferral.

A few tax accounts with incorrect deferral amounts required correction

In May 2023, we reported that Social Security tax deferral payments were incorrectly posting to employer tax accounts as additional deferrals rather than reducing the unpaid balance of the original deferral.[5] At the time of our prior review, the IRS estimated that the error affected approximately 22,000 employer accounts. The IRS also stated that the programming that caused the error was corrected, and they took actions to adjust the impacted accounts. Our analysis of tax data as of July 2024 shows that the accounts affected by the error were either corrected or identified by the IRS for correction. In addition, no similar errors were identified for other accounts, confirming that the programming was corrected.

In addition, about 3,200 self-employed individuals had an erroneous duplicate reversal of the deferred Social Security tax which caused their unpaid deferral balance to be overstated. IRS management stated that the duplicate reversals were the result of programming errors associated with a tool that the IRS was using to manually adjust unpaid deferrals on employer tax accounts. In December 2024, IRS management informed us that all of the tax accounts affected by this error had been corrected. However, we found that 134 of the approximately 3,200 accounts still had not been corrected. These tax accounts had approximately $112,000 in erroneous duplicate reversals.

---

[4] Business taxpayers can have more than one tax account. For example, quarterly employment tax filers can defer tax for multiple quarters for Tax Year 2020.

[5] TIGTA, Report No. 2023-46-030, *Recurring Identification Is Needed to Ensure That Employers Full Pay the Deferred Social Security Tax*, p. 5 (May 2023).

Management Action: The IRS took action to begin correcting the 134 tax accounts with duplicate deferrals in February 2025. As of June 2025, IRS management indicated that all affected accounts had been corrected.

IRS Processes Resulted in More Than 9,500 Business Tax Accounts Being Incorrectly Assessed Failure to Deposit Penalties

Tax data as of July 2024 shows that the IRS assessed an estimated $591 million in penalties and interest on 403,711 tax accounts because employers failed to timely pay their deferred Social Security taxes. However, the IRS incorrectly assessed manual FTD penalties totaling $73.7 million on 9,548 business tax accounts.

The IRS incorrectly assessed $73.7 million in penalties.

These employers had credits, such as payments or refund offsets available, but these transactions did not post timely to their tax accounts.[6] The delay in posting these transactions caused the employer to have a delinquent deferral and resulted in the FTD penalty being overstated. IRS officials indicated that the late posting of a payment or credit could be due to delays in processing payments or credits becoming available from processed amended tax returns for earlier tax periods. There is no process to automatically adjust manually assessed penalties when payments are posted late.

IRS officials stated that current agency processes did not specifically require manually assessed penalties to be adjusted when a systemic credit posts untimely to a tax account and that employers should contact the IRS to recalculate or abate the penalties. After advising IRS officials that employers may not be aware that they need to have a manual penalty recomputed or abated, they agreed to complete systemic or manual adjustments for all accounts as needed.

Recommendation 1 (Email): The Commissioner, Small Business/Self-Employed Division, should review the population of 9,548 business tax accounts with late posted payments and credits that resulted in overstated FTD penalties, ensuring that the penalties are corrected for those accounts.

> **Management's Response:** IRS management agreed with the recommendation and will ensure that penalties are adjusted on the identified accounts.

[6] See Appendix V for a Glossary of Terms.

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this review was to evaluate the IRS's ongoing efforts to ensure that individual and business taxpayers pay their deferred Social Security taxes as required. To accomplish our objective, we:

- Evaluated the IRS's efforts to correct duplicate reversals and deferral postings that were identified in the previous audit.
- Determined whether employers made their required payment of the deferred Social Security tax by December 31, 2021, and December 31, 2022.
- Determined whether the appropriate penalties and interest were assessed on employers that did not timely pay their deferred Social Security tax.

Performance of This Review

This review was performed with information obtained from the IRS Small Business/Self-Employed Division in Lanham, Maryland, during the period July 2024 through May 2025. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

We performed tests to assess the reliability of data from the IRS's Business and Individual Master Files stored in TIGTA's Data Center Warehouse. We evaluated the data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the Internal Revenue Manual, other policies and procedures followed when processing the Social Security tax deferral, and the systems/programming used to process the tax returns and transactions on the tax accounts. We evaluated the controls by reviewing the IRS's internal manuals and procedures, interviewing IRS management, and evaluating applicable documentation and management information reports.

Appendix II

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; $73,687,261 in FTD penalties that were incorrectly assessed on 9,548 business tax accounts (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We analyzed 49,495 business tax accounts from the IRS's Business Master File that were assessed FTD penalties on Social Security tax deferral amounts that were unpaid as of the December 31, 2021, and December 31, 2022 due dates. We reduced this population to those tax accounts with payments or credit transactions dated prior to the deferral due date, but where the payment or credit transaction posted to the tax account after manual adjustments were made to the unpaid deferral. Our analysis resulted in 9,548 business tax accounts with FTD penalties that were manually assessed but not adjusted for payments or credits received.

For each tax account, we reduced the unpaid deferral amount, at the time of manual adjustment, by the respective payment or credit that was posted late. We then applied the FTD penalty rate (10 percent) to the new unpaid amount, accounting for the FTD penalty threshold. Our analysis found that manual FTD penalties assessed on 9,548 tax accounts were overstated by $73,687,261.

Appendix III

Tax Year 2020 Forms That Report the Deferred Social Security Tax

Form	Form Name
Form 941	*Employer's QUARTERLY Federal Tax Return*
Form 943	*Employer's Annual Federal Tax Return for Agricultural Employees*
Form 944	*Employer's ANNUAL Federal Tax Return*
Form CT-1	*Employer's Annual Railroad Retirement Tax Return*
Form 1040	*U.S. Individual Income Tax Return*
Form 1041	*U.S. Income Tax Return for Estates and Trusts*

Source: Tax returns that report the Social Security tax deferral for Tax Year 2020.

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

August 14, 2025

MEMORANDUM FOR DIANA M. TENGESDAL
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lia Colbert Amalia C. Colbert Digitally signed by Amalia C. Colbert Date: 2025.08.14 10:06:43 -04'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Most Employers Paid Their Deferred Social Security Taxes But Some Penalties Were Incorrect (Audit No.: 2024406006)

Thank you for the opportunity to review and comment on the subject draft audit report. We have continued working diligently through a range of unique technical and procedural challenges to ensure taxpayers pay their deferred Social Security taxes as required by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. We have continued collaborating with multiple functions within Taxpayer Services, Small Business/Self-Employed Division, and the Chief Financial Office. These offices identify taxpayer accounts and resolve technical conditions to ensure reversal adjustments post correctly without interfering with other actions.

Per Section 2302 of the CARES Act, employers were allowed to defer the employers' share of Social Security taxes during the 2020 tax year for taxes imposed from March 27, 2020, to December 31, 2020. To account for this special circumstance, we created a temporary credit equal to the amount of the deferral on employers' accounts in our systems. Employers were required to pay and deposit 50 percent of the eligible amount to be deferred by December 31, 2021, and the remainder by December 31, 2022. When the employer does not pay or deposit the required amount by the installment due dates, we reverse the temporary credit on the applicable accounts.

We have completed **99.5 percent** of all reversals for the first installment and **98.7 percent** of all reversals on the second installment. We are working to complete the reversals for both the first and second installment by December 31, 2025.

Attached are our comments and proposed actions to your recommendation. If you have any questions, please contact me, or Kareem Williams, Director, Operations Support, Small Business/Self-Employed Division.

Attachment

Attachment

Recommendation

RECOMMENDATION 1 (Email):
The Commissioner, Small Business/Self-Employed Division, should review the population of 9,548 business tax accounts with late posted payments and credits that resulted in overstated FTD penalties, ensuring that the penalties are corrected for those accounts.

MANAGEMENT'S RESPONSE TO EMAIL:
IRS management agreed with our analysis and stated that they would adjust the impacted accounts. The IRS has adjusted most of the accounts and estimates that they will correct approximately 400 remaining accounts by August 30, 2025.

CORRECTIVE ACTION:
We agree with the recommendation and will ensure the Federal Tax Deposit (FTD) penalty is properly adjusted for the applicable modules identified by TIGTA.

IMPLEMENTATION DATE:
November 15, 2025

RESPONSIBLE OFFICIAL:
Director, Business Support Office, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

Appendix V

Glossary of Terms

Term	Definition
Business Master File	The IRS database that consists of federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Internal Revenue Manual	The primary source of instructions to employees relating to the administration and operation of the IRS. The manual contains the directions employees need to carry out their operational responsibilities.
Refund Offset	Transferring an overpayment of tax (a credit) from one tax period to satisfy outstanding tax liability on a second tax period.

Appendix VI

Abbreviations

FTD	Failure to Deposit
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration

**To report fraud, waste, or abuse,
contact our hotline on the web at
https://www.tigta.gov/reportcrime-misconduct.**

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.