



THE MAKING WORK PAY TAX CREDIT

Information for Individuals

Check Your Withholding

How will the Making Work Pay tax credit affect you?

Most wage earners will benefit from larger paychecks in 2009 and 2010 as a result of the changes made to the federal income tax withholding tables to implement the Making Work Pay tax credit. However, some people may find that the changes built into the withholding tables result in less tax being withheld than they prefer.

If you're not eligible for the Making Work Pay tax credit, withholding changes could mean a smaller refund next spring. A limited number of people, including those who usually receive very small refunds, could in some situations owe a small amount rather than receiving a refund. Those who should pay particular attention to their withholding include:

- Pensioners (see more information under **Pensioners**, below)
- Married couples with two incomes
- Individuals with multiple jobs
- Dependents
- Some Social Security recipients who work
- Workers without valid Social Security numbers

The Making Work Pay tax credit, normally a maximum of \$400 for working individuals and \$800 for working married couples, is reduced by the amount of any Economic Recovery Payment (\$250 per eligible recipient of Social Security, Supplemental Security Income, Railroad Retirement or Veteran's benefits) or Special Credit for Certain Government Retirees (\$250 per eligible federal or state retiree) that you receive. If you are affected by this reduction, you should review your withholding to ensure that sufficient funds have been withheld to meet your tax obligation.

If you wind up owing tax because too little was taken out of your paychecks during 2009, you may qualify for special relief on a penalty that sometimes applies.

If you believe your current withholding is not appropriate for your personal situation, you can perform a quick check using the IRS withholding calculator, which is located on the IRS website, www.IRS.gov. When you have determined your correct withholding, make any adjustments by filing a revised Form W-4, Employee's Withholding Allowance Certificate, with your employer.

Pensioners

Pensioners do not qualify for the Making Work Pay credit, unless they receive earned income. However, because the 2009 and the 2010 withholding tables also apply to pensioners, the IRS has provided pension plans with an optional adjustment procedure. If you are a pensioner with questions about your withholding, contact your pension plan administrator.

If desired, pensioners can adjust their withholding by filing Form W-4P, Withholding Certificate for Pension or Annuity Payments.

Self-Employed

Self-employed individuals can also benefit now from the Making Work Pay tax credit by evaluating their expected income tax liability, allowing for this tax credit if they are eligible, and making the appropriate adjustment in the amount of their regularly scheduled estimated tax payments.

Your 2009 Tax Return

Information on completing your tax return if you're claiming the tax credit is available. To find out if you received a 2009 Economic Recovery Payment, use the Did I Receive a 2009 Economic Recovery Payment? online feature on the IRS website, www.IRS.gov. You also may call the IRS automated telephone service at 1-866-234-2942 and select Option 1 to verify whether you received the payment.

Questions and Answers

If you have questions about the Making Work Pay provision, these questions and answers might help.

General Information

In 2009 and 2010, the Making Work Pay provision of the American Recovery and Reinvestment Act will provide a refundable tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns.

This tax credit will be calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with modified adjusted gross income in excess of \$75,000, or \$150,000 for married couples filing jointly.

For people who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes. These changes may result in an increase in take-home pay. The amount of the credit will be computed on the employee's 2009 income tax return filed in 2010 and the employee's 2010 tax return filed in 2011. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 and 2010 tax returns.

It is not necessary to do anything to get the automatic withholding change. However, an employee with multiple jobs or a married couple whose combined income places it in a higher tax bracket should consult the IRS withholding calculator and, if necessary, submit a revised Form W-4, Employee's Withholding Allowance Certificate, to ensure enough tax is withheld. Publication 919, How Do I Adjust My Tax Withholding? provides additional guidance for tax withholding including a special Making Work Pay worksheet.



Source: IRS.gov

Any advice provided in the articles appearing in Women's Corner is for informational purposes only and should not be considered a recommendation. It is the opinion of the author and not the opinion of Huntingdon Valley Bank.