

The Making Work Pay Tax Credit

If you receive any income that is subject to federal income tax withholding, you may have noticed an increase in your paycheck or your pension payment starting in April of this year. The reason for this increase is the “Making Work Pay” tax credit. For 2009 and 2010, the credit equals 6.2% of your earned income up to a maximum of \$400 for individual filers and \$800 for joint filers.

When Do I Get the Money?

If you qualify to receive the credit, it will appear on your 2009 individual income tax return. Instead of making you wait until then to receive the benefit of the credit, the IRS has changed the federal withholding tables. Because of this change, you will receive the benefit throughout the year by having less income tax withheld from each paycheck or pension payment.

What Could Be the Catch?

The extra money in your paycheck can be a good thing if you qualify for the credit on your tax return. If you do not qualify, however, then you could owe more taxes at year-end or not get as much of a refund as you typically do. It is also possible that, even if you get the full amount of the credit at year-end, it may not be enough to make up for the lowered amount of tax that is being withheld from your pay.

Who Qualifies for the Credit?

It is important to be aware that, although the withholding tables have been changed for everyone across the board, not everyone will qualify for the tax credit. In order to qualify you must:

- Be a US citizen or resident alien and
- Have a valid social security number and
- Have earned income from wages, nontaxable combat pay, or self-employment (from a Schedule C or partnership business or a farm) – retirement and pension income do not count as earned income

NOTE: If your only income source is from an S-Corporation that files Form 1120-S, be sure to have the S-Corporation pay you wages throughout the year. Otherwise, none of your income from the S-Corporation will be considered earned income, and you will not qualify for the credit.

Examples of those who do not qualify for the credit are:

- Anyone claimed as a dependent on another taxpayer’s tax return (such as children or college students who work but are claimed as dependents by their parents)
- Anyone who does not have earned income (such as wages, nontaxable combat pay, or self-employment income from Schedule C, a partnership, or a farm)
- Non-resident aliens
- Estates
- Trusts

How Much Is the Credit, and Are There Any Limitations To It?

For 2009 and 2010, the credit equals 6.2% of your earned income up to a maximum of \$400 for individual filers and \$800 for joint filers. There are income limitations to the tax credit on the 2009 tax return. Individual filers who qualify for the credit will receive up to a \$400 credit if their modified adjusted gross income is less than \$75,000. Joint filers who qualify will receive up to an \$800 credit if their modified adjusted gross income is

less than \$150,000. For those who earn more than that, the credit will be reduced by 2% of the amount of income over these dollar amounts. Individuals earning \$95,000 or more and joint filers earning \$190,000 or more will not receive any of the Making Work Pay tax credit.

NOTE: If you are a Social Security or pension benefits recipient, retired railroad worker, or disabled veteran, who receives a \$250 economic recovery payment this year and you qualify for the Making Work Pay tax credit because you also have earned income, your tax credit will be reduced by the \$250.

What Should You Do Next?

The bottom line is you need to estimate whether you are having enough income tax withheld from your paycheck or pension payment or whether you are making enough estimated payments to cover your 2009 tax liability. The IRS has provided a withholding calculator to help you determine this. To access the calculator, you need to use this link: <http://www.irs.gov/individuals/article/0,,id=96196,00.html>. You will need to have your most recent pay stubs and income tax return handy. If you believe that you need to increase your withholding, you can do so by submitting a new Form W-4 to your employer or Form W-4P to your pension payer. Below, there are links to copies of these forms.

The IRS especially recommends that the following individuals do a withholding “check up” by using the above link or by reviewing Publication 919, *How Do I Adjust My Tax Withholding?*. These individuals are at higher risk of not having enough tax withheld under the new withholding tables to cover their 2009 tax liability:

- An employee with multiple jobs
- A married couple and both husband and wife work
- A retiree who receives a pension and does not have any wage income
- An employee who does not have a valid social security number
- An employee who can be claimed as a dependent on someone else’s return
- An employee who receives Social Security, SSI, Railroad Retirement, or Veteran’s Disability Payments
- An employee who is a nonresident alien

Below, there are some links to the IRS website that will give you more detailed information. If you would like one our tax accountants to help you with tax planning for 2009, please contact our office at (918) 392-7879 to schedule an appointment. We appreciate your business and look forward to servicing your tax and accounting needs in the future.

[The Making Work Pay Tax Credit](#)

[Making Work Pay General Q&A](#)

[New Withholding Tables Q&A](#)

[Form W-4 Q&A](#)

[Economic Recovery Payments Q&A](#)

[Printable Copy of Form W-4](#)

[Printable Copy of Form W-4P](#)