

Making Work Pay Credit

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Many of you may not know that you are getting a \$400 stimulus payment from the government this year and next year. The American Recovery and Reinvestment Act of 2009 went into effect in February, 2009. Most of the headlines from this bill were the \$275 billion dollars available for federal contracts, grants and loans, or the enhanced credits for the first time home buyer. The Making Work Pay Credit was also included in this bill.

The Making Work Pay Credit is a refundable credit that is equal to 6.2% of the earned income of an individual, limited to a credit of \$400 (\$800 on a joint return) It is a part of the \$288 billion dollars in tax cuts and benefits the bill is providing for millions of working families and businesses. Unlike the prior years when a stimulus check was sent in the mail to the working individual, this credit was paid out during the year. For most of us, it was paid through reduced federal withholdings during the year. In April 2009, the IRS published new withholding tables that employers were to use. This put the \$400 in the hands of everyone during the year with larger paychecks. This credit begins to phase out for single individuals with a modified adjusted gross income in excess of \$75,000 and married filing joint returns with a modified adjusted gross income of \$150,000.

WARNING: There are several individuals who are at risk of paying more tax at the end of the year because of the reduced withholdings throughout the year.

Work and Social Security Recipient: If you are a worker who also receives Social Security or railroad retirement, you may be negatively affected by the Credit. You probably noticed that you received a check in the mail for \$250. All SS recipients should have under the 2009 Recover Act. Your making work pay credit will be reduced by this \$250 already received. This probably hasn't been taken in to account on your withholdings.

Pension: If you are living off a pension and have withholdings from the pensions, you may owe more tax because the pension is not earned income for purposes of this credit.

Multiple jobs in the household: If you and your spouse both work, or one of you has more than one job, you may be negatively affected. The IRS tables take into account if you file jointly or not. So both employers may be reducing your paychecks by the JOINT AMOUNT, not the individual amount. If you have more than one job in the household, you may be doubling up on the credit and may end up owing more tax at the end of the year.

Dependents: If you have kids that are working but you claim them as a dependent, they may end up owing tax this year because dependents are not eligible for the credit.

To remedy this, taxpayers should project their year-end situation now and adjust their withholdings or start to prepare to owe tax on April 15th. There may be individuals this year that are used to getting a refund that may end up owing tax. By looking into this situation before year-end, you will be better prepared for this year's tax deadline, as well as next year. Remember, this stimulus is still in the law in 2010. If you have any questions regarding this credit, please contact your Hawkins, Ash Baptie & Company Representative to discuss your personal tax situation.

