



March 4, 2009

## **MAKING WORK PAY TAX CREDIT**

For 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 \$800 for married tax payers filing joint returns. This tax credit will be calculated at a rate of 6.2% of earned income and will phase out for taxpayers with 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 in the early spring. These changes may result in an increase in take home pay. The amount of the credit must be reported on the employee's 2009 income tax return filed in 2010. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on the 2009 tax return.

The tax credit does not apply to nonresident aliens. Therefore the amount to add to a nonresident alien employee's wages for calculating income tax withholding only has been increased to \$7,180/annually or \$138/weekly.

It is not necessary to submit a Form W-4 to get the automatic withholding change. However, an employee with multiple jobs or married couples whose combined incomes place them in a higher tax bracket may elect to submit a revised W-4 to ensure enough withholding is held to cover the tax for his or her combined income.

### **Payroll and Reporting Impact:**

- The IRS has revised Federal Income Tax Withholding Tables in Notice 1036. This information is now included in Publication 15-T New Wage Withholding and Advance Earned Income Credit Payment Tables for wages paid through December 2009.
- The Tables are effective as soon as possible and no later than 4/01/2009. ADP payroll systems are being updated well in advance of this date.

[American Recovery and Reinvestment Act of 2009](#)

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