

"MAKE WORK PAY PROGRAM"
- OR -
BEWARE OF THE CONSEQUENCES

Wednesday, February 25, 2009

For most taxpayers, the "make work pay" credit that will start showing up in paychecks in about a month will be easy money, some extra pocket change adding up to as much as \$400 for single filers and \$800 for married couples each year for two years. This is **not** a government gift like the stimulus payment! It's an **advance refund** (again) for 2009/2010 taxes.

But for some, the new credit could result in an unexpected bill come filing time in 2010, because employers will be adjusting paycheck withholding amounts without knowing each worker's complete tax situation.

Here's how it works: The IRS released (2/21/09) new tax-withholding tables for employers to use when figuring workers' paychecks. The IRS asked companies to use the new withholding amounts by April 1.

"For most taxpayers, the additional credit will automatically start showing up in their paychecks this spring," said Doug Shulman, the IRS commissioner, in a press release.

"Since employers and payroll companies will handle this change, people typically won't need to take any additional action," he said. See the release on IRS site.

BUT.....

But if you file a joint return with your spouse, and you both work, you should carefully review your withholding, because it's **highly likely** both employers, without knowledge of what the other is doing, will adjust withholding such that both spouses receive up to \$800, for a total credit of \$1,600.

It's conceivable that if both are married-filing-joint and their income is not otherwise going to cause a phase-out [of the credit], they could get the double benefit. When they file their income tax return, the actual credit they're entitled to is \$800."

That means paying back up to \$800 with your return, though Keith said the money paid out this year, and thus any tax bill later, likely would be slightly lower -- since the withholding adjustment starts close to midyear, the full credit won't be paid out in paychecks.

For some, what's effectively a loan from the government might be welcome.

But others will find the big bill next year unwelcome. One way to prevent it: Adjust your withholding this year.

Note, too, that taxpayers who normally get a refund might simply see a reduced refund, rather than a bill, come April 2010. A lot of people get refunds. If you're in that situation, it likely would just mean that your refund is lower. But if you normally do not get a refund, you could find you owe more tax than you anticipated.

In some cases, a couple could potentially owe as much as \$1,600 at tax time. That's because the credit starts to phase out for married-filing-jointly couples with adjusted gross income of \$150,000 -- but employers don't know what workers' spouses earn.

Suppose each spouse earns \$100,000?" When each spouse's employer assesses that worker's eligibility, the employer sees that the worker earns less than the phase-out of \$150,000 for a joint filer.

So the new withholding tables presumably will reduce each of their withholdings by the full credit amount of \$800. Their combined income of \$200,000, however, exceeds the phase-out level, so they are not eligible for any portion of the credit. That means up to \$1,600 owed to the IRS, though, again, the IRS's Keith said it's likely that closer to \$1,200 would be paid out in paychecks this year, rather than the full \$1,600.

The credit phases out for a married couple filing a joint return with modified adjusted gross income between \$150,000 and \$190,000 and for other taxpayers with modified adjusted gross income between \$75,000 and \$95,000, according to the IRS.

It's not only married couples who should assess their withholding. Another category of people who are not eligible for the credit who could get it is someone who could be claimed as a dependent on someone else's return, such as a college student who has a summer job. They're not eligible.

