

# Don't Come Up Short - Federal Withholdings and the "Making Work Pay" Tax Credit

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The "Making Work Pay" tax credit of up to \$400 per year for individuals, or \$800 per year for couples was the centerpiece of the 2009 Stimulus Act package. Unlike the \$600 lump-sum rebates issued in 2008, most taxpayers are receiving the "Making Work Pay" credit through lower federal income tax withholdings resulting in a slightly higher paycheck.

However, certain categories of taxpayers may find that the lower income tax withholding tables have caused the taxpayer to receive a larger tax credit benefit than allowed. These taxpayers will find themselves in the unenviable position of having to "repay" the credit with the filing of the 2009 tax returns, either through a smaller refund or a payment to the IRS.

These taxpayers may include:

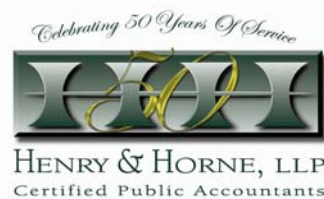
- Employees with multiple jobs whose lower income tax withholdings reflected the "Making Work Pay" credit multiple times.
- Married couples who both work and qualify for the "Making Work Pay" credit. The couple may have tax withholdings lowered by more than the allowed credit of \$800.
- Employees who have other sources of income which cause them to be ineligible for the "Making Work Pay" credit due to the AGI limitations.
- Working college students who are still claimed as a dependent on a parent's tax return may be under withheld, as dependents do NOT qualify for the "Making Work Pay" credit.
- Retirees who have federal income taxes withheld from their pensions. The new lower income tax withholdings are applied even though the retiree may not qualify for the credit.
- Older working taxpayers who received the one-time \$250 payment to retirees and have reduced withholdings for the "Making Work Pay" credit. The \$250 payment is a reduction to any allowable making Work Pay credit.

A taxpayer must have earned income to qualify for the "Making Work Pay" credit. In addition, this credit is unavailable for individuals with AGI of \$100,000 or more, or for joint filers with AGI of \$200,000 or more.

Contact your Henry & Horne, LLP professional to determine how these rules may affect your 2009 tax return.

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