

EXPERTS' FORUM | Human Resources

ARRA "Making Work Pay" Tax Credit Pitfall

The recent American Recovery and Reinvestment Act of 2009 (ARRA) "Making Work Pay" tax credit resulting in an increase in take home pay for many people may have some unintended negative consequences for some tax filers.

In tax years 2009 and 2010, ARRA provides a refundable tax credit of up to \$400 for individuals and \$800 for married taxpayers filing joint returns. The credit is phased out for individuals with modified adjusted gross income of \$75,000 - \$95,000 (\$150,000-\$190,000 for joint filers). The credit went into effect on April 1, 2009, and is designed to "stimulate" the economy with around \$8.00 in additional spending money each week for single filers and around \$15.00 per week for married filers.

Employers have no obligation to make determinations with regard to an employee's eligibility for the tax credit and withholding should be made consistent with an employee's filed W-4 and the newly modified withholding tables. Employers may, however, want to let employees know about a pitfall they may encounter that could result in an underpayment of income tax.

Individual filers are entitled to a maximum tax credit of \$400 for the tax year. If an individual works at two jobs simultaneously, the tax credit will apply to both payroll checks and could result in the employee receiving a double \$400 tax credit. This would cause the individual to have under-withheld taxes and to owe additional taxes upon filing for that tax year.

Note that this problem does not arise for someone who moves from a single job to another single job. Married people filing jointly could also end up with an under-withholding situation. They will be able to enjoy a tax credit of up to \$800; however, if both parties work, and each files his/her W-4 form as "married," the tax tables will generate a tax credit (or reduction of withholding) of up to \$600 per person.

This could result in a total credit of \$1,200 when the credit maximum should be \$800 for a married couple. Again, the couple could find themselves in a tax withholding deficit situation. Should an individual or couple anticipate having an under-withholding issue, there is a solution.

Individuals working more than one job at the same time may want to adjust their Form W-4 with their employer to have more taxes withheld. The individual could reduce the number of withholdings they are claiming or indicate an "additional tax amount" on line six of the withholding form. Married couples with both spouses earning wages may also want to adjust their Forms W-4 to have more taxes withheld.

Taking action as indicated above could save both individual and married filers the headache of unanticipated under-withholding of federal income tax. After all, it would be a shame to reap the reward of \$8.00 per week, only to owe the entire amount to the federal government at tax time.



REBECCA WOODS
Vice President of Human Resources
Doherty Employer Services
bwoods@dohertyhro.com
<http://www.dohertyhro.com>