



PAYROLL CURRENTLY

The Biweekly Payroll Compliance Publication of the American Payroll Association

Inside Washington

March 2009

Some Employees May Want to Adjust Their W-4s Under the New Withholding Tables

The new 2009 income tax withholding tables issued to implement the Making Work Pay Credit (MWPC) may place some taxpayers in a slightly “underwithheld” situation by the end of the year. In particular, married couples with both spouses earning wages and individuals working multiple jobs at one time may want to adjust their Forms W-4 to have more withheld.

The new tables, compared with those originally in place for 2009, will generally decrease federal income tax withholding by the end of the year by \$400 for single individuals and \$600 for married individuals. The differential may be less for lower-paid workers. In addition, the differential is phased out as the combination of wages and withholding allowances suggests a modified adjusted gross income (MAGI) of at least \$75,000 for single individuals (\$150,000 for joint filers), disappearing completely at a MAGI of \$95,000 (\$190,000 for joint filers).

So, while the MWPC to be claimed on the 2009 personal income tax return caps at \$800 for a couple filing jointly, the new withholding tables may “give” them \$600 each, if they each earn wages, or \$1,200, between April 1 and the end of the year (slightly more if the new tables are implemented “as soon as possible,” as suggested by the IRS). This also means that a married person with a non-working spouse will have \$600 less in withholding but be entitled to a credit of \$800 on his or her tax return.

An individual who works two jobs concurrently may have a reduction in withholding, up to \$400, at each job. However, he or she will be entitled to a credit of no more than \$400 on the 2009 personal income tax return. This problem does not arise for someone who moves from one single job to another single job (no matter how many times) between April 1 and the end of the year.

Why is this happening?

The credit is supposed to be the lesser of (1) 6.2% of earned income or (2) \$400 for single individuals and \$800 for joint filers. It could have been delivered by carving \$8,603 out of the current 10% withholding tax bracket (\$17,206 for married taxpayers) and taxing it at 3.8% (10% less 6.2%). The reduction in withholding between April 1 and the end of the year would have been \$400 for singles and \$800 for married persons. Of course, there would also have to have been an extra 6.2% tax on a similar amount of wages in a higher earnings bracket to phase out the withholding reduction for those whose MAGI disqualifies them from the credit. That was not done, so the credit is delivered correctly for only the simplest situations.

Nonresident aliens, dependents, pensioners

After the new withholding tables were issued, APA reminded the IRS that they needed to provide new guidance on withholding from nonresident aliens (NRA). They are not eligible for the MWPC, but the new withholding tables would have reduced their withholding as if they were. We told the IRS that they should adjust the table of amounts to be added to NRA wages for withholding calculations. It is as integral to the



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withholding process as the value of a withholding allowance. The IRS addressed this when they issued Pub 15-T (www.americanpayroll.org/members/Forms-Pubs/#annual). If you implement that table, no W-4 adjustments should be necessary for NRAs.

Another group of taxpayers not eligible for the MWPC are those who may be claimed as a dependent on someone else's tax return. Of course, payroll professionals have no way of knowing whether their employees fall into that category. Some of these taxpayers may want to ask for additional withholding (e.g., \$400 divided by the number of pay dates remaining in the year). However, if a dependent's wages are low, he or she may not see a full \$400 or \$600 reduction in withholding anyway – or any reduction, if claiming exemption from withholding.

Finally, while the MWPC applies to "earned income," the new withholding tables are also used for withholding from pensions, which are not "earned income." So, pensioners earning less than the threshold MAGI amounts may have \$400 or \$600 less withheld, even though this income is not eligible for the credit.