

## What is Federal Income Tax?

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. Wage earners pay federal income tax by having it withheld from their pay during the year. This is your “withholding.” Your withholding is based on the number of allowances you claim when you file **Form W-4, Employee’s Withholding Allowance Certificate**, with your employer.

**Form W-4, Employee’s Withholding Allowance Certificate**, includes the following information:

- Your marital status
- The number of withholding allowances you are claiming
- Any additional withholding amount you are requesting
- Qualification of exempt status

The amount of tax the employer withholds from the taxpayer’s wages depends on:

- The amount you earn
- How often you are paid
- The information you entered on **Form W-4**

**Form W-4** should be reviewed to ensure the correct amount of tax is being withheld.

## For additional information

- **Publication 919, How Do I Adjust My Tax Withholding?**
- Withholding Calculator on [www.irs.gov](http://www.irs.gov)
- **Form W-4, Employee’s Withholding Allowance Certificate**
- **Form W-4P, Withholding Certificate for Pension or Annuity Payments**
- **Publication 505, Tax Withholding and Estimated Tax**
- **Form 1040-ES, Estimated Tax for Individuals**

For more information on the Making Work Pay Tax Credit visit [IRS.gov/recovery](http://IRS.gov/recovery). Forms and publications are available on [www.irs.gov](http://www.irs.gov) or by calling the IRS at **1-800-829-3676**.

## Free Tax Return Assistance

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) Sites offer free tax return preparation to individuals with low to moderate income. To find free tax help near you, call IRS at **1-800-906-9887** or AARP TaxAide at **1-888-227-7669**.

# Catch a Break

## Making Work Pay Tax Credit

### A Refundable Tax Credit for Working Individuals

Who says you can’t get a break these days? The American Recovery and Reinvestment Act may give you the break you’re looking for – a boost in your paycheck.

American Recovery and Reinvestment Act of 2009



## Making Work Pay

In 2009 and 2010, the Making Work Pay provision of the American Recovery and Reinvestment Act of 2009 provides a refundable tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns.

The amount of the credit will be computed on the employee's 2009 income tax return filed in 2010 and the 2010 income tax return filed in 2011. Taxpayers with earned income who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 and their 2010 income tax returns.

For people who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes that employers and payers began using as of April 1, 2009.

It is not necessary to submit a Form W-4 to get the automatic withholding change.

These changes may result in an increase in take-home pay.

Some individuals may find that the changes built into the withholding tables result in less tax being withheld than they prefer.

Also, for taxpayers who are not eligible for the Making Work Pay Tax Credit, withholding changes could mean a smaller refund next spring. And, a limited number of individuals, including those who usually receive very small refunds, could owe a small amount rather than receive a refund.

## How will the Making Work Pay Tax Credit affect some taxpayers?

The following taxpayers should check their withholding to see if enough is being withheld.

### Taxpayers with two or more jobs and married couples who both work

Adding income from all jobs may put the employee in a higher tax bracket. The combined withholdings may be less than the actual tax on the tax return.

**Pensioners** do not qualify for the Making Work Pay Tax Credit, unless they receive earned income. A new optional withholding adjustment procedure for pension plans was issued May 14, 2009. For pension payers who elect to use this new procedure, this change will help reduce the possibility of under withholding. However, pension recipients may still need to review their withholding to determine if they need to submit a revised **Form W-4P** to the pension payer.

### Dependents who work but who are not eligible for the making Work Pay Tax Credit due to their dependent status

A person who can be claimed as a dependent on someone else's return is not eligible for the credit. Dependents may find that their withholding is less than the actual tax on the tax return.

### Individuals who do not have valid Social Security Numbers, including non-resident aliens and some resident aliens

Taxpayers must have a valid social security number to be eligible for this credit. If not enough tax is withheld, the taxpayer may owe tax at the end of the year. In the case of a joint filer, a valid SSN is required for one of the taxpayers.

### How to Change Withholdings?

Taxpayers can easily find out if enough tax is being withheld by using the IRS withholding calculator and making any necessary adjustments by completing a revised **Form W-4**, *Employee's Withholding Allowance Certificate* or **Form W-4P**, *Withholding Certificate for Pension or Annuity Payments*. Taxpayers should give a revised **Form W-4** to their employer. A revised **Form W-4P** should be given to the pension payer.

### Self-Employed

Self-employed taxpayers may claim this credit on their 2009 tax return filed in 2010 and on their 2010 tax return filed in 2011. They should evaluate their expected income tax liability and determine whether they want to make any adjustments to their estimated tax payments.