

March 18, 2010

**ALERT: Employers should notify employees of potential for under-withholding 2010 taxes due to “Making Work Pay” tax credit**

Last year’s Making Work Pay Tax Credit program of the American Recovery and Reinvestment Act (ARRA) gave many employees a break on their withholding – but resulted in UNDER-withholding for certain employees, causing a lower tax refund or even tax owed. Because the Making Work Pay Tax Credit program applies also to 2010 withholding, we encourage you to remind all employees to review their withholding status and, if necessary, to revise it for 2010 to avoid being under-withheld for 2010. If employees owe tax because of the Making Work Pay Tax Credit, they may also be eligible to apply for relief from the tax penalty sometimes applied for under-withholding.

We have attached sample wording for an employee notification for your convenience, although you may want to customize it. As well, we have provided copies of and references to two IRS notices with information you could share with employees. A number of our clients’ employees experienced under-withholding resulting in taxes owed for 2009; by notifying your employees, you may help them avoid an unpleasant tax “surprise” at tax time next year (and also avoid a phone call from an upset employee).

The employees most likely to be affected by under-withholding include:

- Dependents who receive wages
- Single taxpayers with more than one job
- Joint filers where both spouses work
- Joint filers where one or both spouses have more than one job
- Individuals who file a return with an Individual Taxpayer Identification Number
- Taxpayers who receive pension payments
- Social Security recipients who receive wages

If you have any questions about the Making Work Pay Tax Credit, please contact your AGH professional at (316) 267-7231 or call AGH vice president of outsourcing services Cindy Henning at (316) 291-4101 or email [cindy.henning@aghlc.com](mailto:cindy.henning@aghlc.com).

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**DRAFT SAMPLE: March XX, 2010**

**ALERT: “Making Work Pay” tax credit may cause some employees to owe additional federal income tax**

Many employees received a break on withholding taxes in 2009 due to the “Making Work Pay” provision of the second federal economic stimulus act. But, in certain situations, **the withholding tax may have been reduced too much, possibly causing the employee to owe income tax.** The Making Work Pay Tax Credit is applicable again in 2010, **so employees who did not have the appropriate amount withheld in 2009 should make any adjustments required as soon as possible in 2010.**

The Making Work Pay Tax Credit program of the American Recovery and Reinvestment Act (ARRA) reduced income-tax withholding by offering a tax credit of up to \$400 for individuals and \$800 for married taxpayers filing joint returns in 2009. However, the federal tax withholding tables provided to employers in 2009 did not take into account employees who weren't eligible for the tax credit – which could cause underpayment of withholding for some employees and result in income tax owed.

Employees who may not be eligible for the tax credit or who may have had too little taxes withheld include:

- Dependents who receive wages
- Single taxpayers with more than one job
- Joint filers where both spouses work
- Joint filers where one or both spouses have more than one job
- Individuals who file a return with an Individual Taxpayer Identification Number
- Taxpayers who receive pension payments
- Social Security recipients who receive wages

***If, as an employee, you fall into any of these categories, the IRS recommends that you review your tax withholding and adjust it accordingly by filing a revised W-4 with your employer. If you owe taxes due to the Making Work Pay Tax Credit, you may qualify for special relief from a penalty sometimes applied to underpayment of estimated taxes. A waiver may be requested using IRS Form 2210.***

To learn more about how you may be affected by the Making Work Pay Tax Credit, review the following attachments and talk with your tax professional:

- “Ten Things You Should Know About The Making Work Pay Tax Credit” (also available at <http://www.irs.gov/newsroom/article/0,,id=218614,00.html>)
- “Many Workers Qualify for Penalty Relief” (also available at <http://www.irs.gov/newsroom/article/0,,id=218941,00.html>)

## Ten Things You Should Know about the Making Work Pay Tax Credit

IRS Tax Tip 2010-15

Many working taxpayers are eligible for the Making Work Pay Tax Credit, a provision created by the American Recovery and Reinvestment Act in early 2009.

Here are 10 things the IRS wants you to know about this tax credit to ensure you receive the entire amount for which you are eligible.

1. In 2009 and 2010, the Making Work Pay provision provides a refundable tax credit of up to \$400 for individuals and up to \$800 for married taxpayers filing joint returns.
2. For taxpayers who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes.
3. Taxpayers receiving less than the full amount of the allowable credit through reduced withholding will be entitled to claim any remaining credit when they file their tax return.
4. The amount of the credit actually received during 2009 in the form of reduced withholding will be reported on your 2009 tax return. Taxpayers who do not have taxes withheld by an employer during the year can claim the credit on their 2009 tax return filed in 2010.
5. Taxpayers who file Form 1040 or 1040A will use Schedule M, Making Work Pay and Government Retiree Credits to figure the Making Work Pay Tax Credit. Completing Schedule M will help taxpayers determine whether they have already received the full credit in their paycheck or are due more money as a result of the credit.
6. Taxpayers who file Form 1040-EZ will use the worksheet for Line 8 on the back of the 1040-EZ to figure their Making Work Pay Tax Credit.
7. In 2010, you may notice that your paychecks are slightly lower than in 2009. The slight decrease may be because of the Making Work Pay Credit. Most of the credit for wage earners is distributed through reduced withholding. The credit – which was spread out over nine months last year – is being spread over 12 months this year. A little less credit in each paycheck means slightly higher withholding. But don't worry, in the end it all adds up.
8. Certain taxpayers should review their tax withholding to ensure enough tax is being withheld in 2010. Those who should pay particular attention to their withholding include: married couples with two incomes, individuals with multiple jobs, dependents, pensioners, Social Security recipients who also work, and workers without valid Social Security numbers.  
  
Having too little tax withheld could result in potentially smaller refunds or – in limited instances – small balance due rather than an expected refund.
9. To ensure your current withholding is appropriate for your individual situation, you can review Publication 919, How Do I Adjust My Tax Withholding? You can also perform a quick check of your withholding using the interactive IRS Withholding Calculator on IRS.gov.
10. If you find you need to adjust your withholding, submit a revised Form W-4, Employee's Withholding Allowance Certificate to your employer.

Visit IRS.gov for more information about the making Work Pay Tax Credit, Schedule M, Form W-4 or Publication 919. You can also call 800-TAX-FORM (800-829-3676) to order forms and publications.

**Links:** [The American Recovery and Reinvestment Act of 2009: Information Center](#)

[Publication 919](#), How Do I Adjust My Withholding?

## Many Workers Qualify for Penalty Relief

If you wind up owing tax because too little was taken out of your paychecks during 2009, you may qualify for special relief on a penalty that sometimes applies.

If you owe tax when you file your 2009 return, the IRS will waive any estimated tax penalty that applies, if it relates to various changes made to the [withholding tables](#) during 2009. These changes, reflecting the new Making Work Pay Credit, boosted take-home pay for millions of workers during the year. The vast majority of workers had enough taken out of their paychecks during 2009 and can still expect a refund when they file.

However, because everyone's tax situation is different, some people may have to make an unexpected tax payment when they file their return and with that payment may come an estimated tax penalty, depending upon the circumstances. If you receive an estimated tax penalty notice from the IRS, you can request a waiver using [Form 2210](#), Underpayment of Estimated Tax by Individuals, Estates, and Trusts.

The Making Work Pay Credit remains in effect during 2010. So you can also make sure that you don't come up short again this year by filling out a new [Form W-4](#), Withholding Allowance Certificate, and giving it to your employer. The [IRS Withholding Calculator](#) can help you figure out how much more tax to have taken out.

When you file your return, don't forget to claim the [Making Work Pay Credit](#) on [Schedule M](#), and look into all the other new and expanded recovery-related credits and deductions that may apply to you. Visit the [ARRA](#) page on this Web site for details.