

## **“Making Work Pay” tax credit in the American Recovery and Reinvestment Act of 2009**

Dear Reader,

The recently enacted “American Recovery and Reinvestment Act of 2009” contains a wide-ranging tax package that includes tax relief for low and moderate-income wage earners, individuals and families with college expenses, and home and car purchasers. The centerpiece of the tax package—and at \$115 billion its single largest component—is a “Making Work Pay” tax credit of up to \$400 per year for individuals, or \$800 per year for couples. Here are the details of this new credit:

- Eligible individuals will receive an income tax credit for two years (tax years beginning in 2009 and 2010). The new credit, like other tax credits, will reduce a person's tax liability on a dollar-for-dollar basis. Wage earners who don't earn enough to pay income taxes will be able to claim the difference as a tax refund.
- The new credit is the lesser of (1) 6.2% of an individual's earned income or (2) \$400 (\$800 in the case of a joint return). In other words, for individuals with earned income above roughly \$6,451 (\$12,902 for couples), the credit maxes out at \$400 (\$800 for couples). For the last half of 2009, workers can expect to see RIA's Complete Analysis perhaps \$13 a week less withheld from their paychecks starting around June. That reduction goes down to about \$7.70 per week next year.
- Nonresident aliens do not qualify for this credit. Neither do estates, trusts, or individuals who can be claimed as a dependent on someone else's return.
- The credit is available in full only if AGI (adjusted gross income, with some modifications for highly specialized income) doesn't exceed \$75,000 for an individual (\$150,000 if you file a joint return). The credit is phased out at a rate of 2% of the eligible individual's AGI above \$75,000 (\$150,000 in the case of a joint return). So no credit is allowed for individuals with AGI of \$100,000 or more, or for joint filers with AGI of \$200,000 or more.
- Unlike the \$600 per worker lump-sum rebates issued last year, the credit can be received as a reduction in the amount of income tax that is withheld from a paycheck, or through a credit on a tax return.
- Since the credit is based on taxable wages and thus unavailable to many retired people and others whose income does not come from wages, the new law includes a one-time payment of \$250 to retirees, disabled individuals and SSI recipients receiving benefits from the Social Security Administration, and Railroad Retirement beneficiaries, and to veterans receiving disability compensation and pension benefits from the U.S. Department of Veterans' Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit. Similarly, a one-time refundable tax credit of \$250 is provided in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable Making Work Pay credit.

I hope this information is helpful. If you would like more details about this or any other aspect of the new law, please do not hesitate to call.

