

Dear Client:

March 2009

We wanted to update you with some information regarding the new **Making Work Pay Tax Credit (MWPTC)** which was part of the recently passed Stimulus legislation. The amount is \$400 per single or \$800 per married couple for 2009 and 2010 only. It is really not a true tax credit; it is merely a reduction in tax rates. The MWPTC is paid out to employees throughout the year in the form of reduced federal withholding. The credit is phased out for singles with modified adjusted gross income greater than \$75,000 and married persons with MAGI greater than \$150,000. The credit completely disappears for Singles with MAGI over \$95,000 and married couples with MAGI over \$190,000.

Call it what you want, the MWPTC will result in most working people paying less tax in 2009 and 2010. However, there are some pitfalls for married employees and those employees who work for two or more employers. These are mentioned on the back page; you will want to take a look at this as some of your employees could end up owing additional tax when they file their 2009 & 2010 federal tax returns.

We have received the new IRS tax tables and these were installed in our software-Evolution- on Tuesday February 24th. Payrolls processed from Tuesday forward, are with the new tables. The tax tables were changed based on a **1/1/2009** start date. So this means that the new credit is spread out over the entire year. Because some payrolls have already been processed this year under the old tax tables, most employees will not receive the entire MWPTC in their paychecks during 2009. Any difference will be refunded when their federal income tax return is filed next year.

The approximate additional amount of net pay (due to the reduction in federal withholding) that your employees will see is as follows:

<i>Status:</i>	<i>pay frequency:</i>	<i>approx. amount per paycheck:</i>
Single	weekly	\$8
	Bi-weekly	\$15
	Semi-mo	\$17
	Monthly	\$33
Married	weekly	\$15
	Bi-weekly	\$30
	Semi	\$33
	Monthly	\$67

How much an employee will receive during 2009 in their net pay depends on how many pay periods will be processed using the new tax tables. For example, a single person paid on a weekly basis, receiving their first paycheck with the new tables on March 4th, will see approximately \$8 more in net pay. Assuming that he/she will receive 44 weekly paychecks in 2009 with the new tax tables, he/she would receive \$352 of the credit during 2009 (44 x \$8) and would receive the remaining \$48 (\$400 less \$352) upon filing his/her 2009 federal income tax return.

The situation is different for married individuals and the amount of the credit which they will receive will depend on whether their withholding status is single or married. If their status is single, their situation is the same as mentioned above for singles.

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If their status is “married”, the new tax tables assume that only one spouse is working. So a person with a status of “married” will receive a credit of \$800 for 2009 (remember this would be less because the actual amount received depends on the number of paychecks received with the new tax tables in effect). For example, an employee with a status of married, receiving 44 weekly paychecks during 2009 using the new tax tables, would receive about \$660 (44 x \$15). The remaining \$140 (\$800 less \$660) would be refunded on his/her federal income tax return.

There is a trap here: a serious problem occurs if both spouses are working and both have the withholding status of “married”. Using the example in the previous paragraph, each spouse would receive the \$660 for a total of \$1,320 in MWPTC when they were only entitled to \$800. At tax time, **they would owe** an additional \$520 in tax! So, your employees will need to check their statuses and make adjustments as necessary to avoid any surprises at tax time. An easy fix is for each spouse in this situation to have an additional \$8 per weekly pay period withheld, to offset this double credit (or \$15 if bi-weekly, etc). They would need to each complete a new W4 form and indicate on line 6 this additional amount. Form W4 is available on our website, columbiaedp.com, under “resources” then, EDP forms. Keep the W4 in your employee file. Please report the change to us with your next payroll.

Another trap is for employees that work for two or more employers. He/she will receive the “credit” through reduced withholding at **each** job. This could result in owing additional money at tax time. We recommend that you tell your employees of this potential pitfall by reminding them to carefully check their withholdings throughout the year so they can make necessary corrections before it is too late.

Below are links to several websites where you may obtain additional information:

irs.gov

http://taxes.about.com/od/deductionscredits/a/making_work_pay.htm

New Cobra credit

We do not yet have the final procedures for the new COBRA credit which affects employers with 20 or more employees. We do know that the earliest our software company will provide an update is April 1st. We will provide you with more information as it becomes available to us. The changes required by these new COBRA regulations are very complicated and the IRS and payroll programmers all over the country have much work to do to implement this.

We have put a copy of this document (named “MWPTC for clients”) in .pdf format on our website columbiaedp.com, under “resources” and then “EDP forms”. You are welcome to edit this for distribution to your employees as you see fit. You can copy and paste into a Word document.

As always, we appreciate the opportunity to serve you and we appreciate your business.

Sincerely,

Columbia EDP