

STIMULATING NEWS FROM IRS

You've all been watching the news and hearing about the "Stimulus Package" that was recently voted into law. The American Recovery and Reinvestment Act signed by President Barack Obama in February included a [Making Work Pay Credit](#) (MWPC), prompting the IRS to issue revised [federal income tax withholding tables](#). This means that most employees will have less federal income tax coming out of their paychecks for the remainder of 2009. (There will be no change to state income tax amounts.)

When will it become effective: As instructed by the IRS, Payroll will start using the new rates for the bi-weekly payroll that pays on April 3, 2009 (20092R20) and the monthly payroll that pays on April 30, 2009 (20091R10).

What effect will it have: The new tax rates are intended to provide a tax credit estimated at \$400 for taxpayers filing as single -- and \$600 for taxpayers filing as married -- by the end of 2009.

For example: an individual filing as single who is paid monthly will have around \$44.00 less deducted each month for federal income tax starting in April than they did for the first three months of the year. This means that for the nine month period from April to December this individual will have paid approximately \$400 **less** in federal income tax (\$44.00 X 9 months) than they would have before the MWPC took effect. For an individual filing as married who is paid monthly, that amount will be around \$66.00 less each month.

Who is going to be affected: Many employees will see a decrease in the amount of federal income tax they are paying, but the MWPC does not apply to everyone. Per the American Payroll Association's (APA) March 2009 newsletter

"...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)".

Be careful – don't get too stimulated! As we understand it, there are some potential problems with the new withholding tables. It's possible to be under-withheld at the end of the tax year. How?

- 1) According to the new federal income tax withholding tables, if both spouses earn wages during the year and both file as "married" on their withholding certificate, (and presuming both employers installed the new tax tables as they should), each spouse will receive an additional \$600 by the end of the year (\$1,200 total) even though, according to the [IRS website](#), they'll only be entitled to a maximum credit on their tax return of \$800.
- 2) This same pitfall could await an individual who has more than one job at a time (compounded even more if both spouses each work multiple jobs), explained best in APA's March 2009 newsletter:

"An individual who works two jobs concurrently (for different employers) 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 (if single) 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."

- 3) Many of our student employees are not eligible for the MWPC tax credit **if** they can be claimed as a dependent on the tax return of someone else, like a parent or guardian. Since the federal tax tables don't distinguish students from non-students – or individuals eligible for the credit vs. those not eligible – this could be a problem for them.

Avoid under-withholding. Individuals who fall under one of the above categories may want to take steps to avoid being under-withheld by adjusting their W-4 status – either to **claim fewer allowances** (to increase the taxes withheld) or by **claiming an additional amount to be withheld** (Line 6 on W-4 form). If you are unsure how to proceed, you should consult with a tax professional for guidance. There is also a "[Withholding Calculator](#)" on the IRS website that could be helpful.

How do I make changes to my W-4 Withholdings: For those who wish to change the federal withholding status on their W-4, please do so using the Employee Self Service application through the MyPack Portal. http://www.fis.ncsu.edu/hr/payroll/tax_earnings.asp

Non-Resident Aliens be paying less tax as well? Many Non-Resident Aliens (NRA) will actually see a slight increase in their tax withholdings. This is due to the fact that the tax tables are created assuming an employee will be entitled to a standard deduction when they file their tax return, as all US citizens are. However, based on the tax treaties between their country and the US, many NRAs are not entitled to claim a standard deduction.

To avoid under-withholding, the amount added to their wages when calculating their federal tax withholding is the highest wage amount in the tax tables to which zero withholding rates apply. For the period January through March 2009 that amount was \$2,650; for the period April through December 2009, that amount will be \$7,180. This does not apply to Non-Resident Aliens from India. The US tax treaty with India allows for those employees to claim the standard deduction on their US tax return.