



# The Making Work Pay Credit

## ***What is it?***

The American Recovery and Reinvestment Tax Act of 2009 (ARRA) established the Making Work Pay Credit (MWPC), which took effect in 2009. The MWPC is a new tax credit worth up to \$400 for individuals and \$800 for married couples filing jointly, regardless of whether or not they are raising children. In order to quickly provide the increase in income from this credit to most workers during 2009, the IRS has adjusted the standard withholding tables which employers use to determine how much income tax is withheld from each paycheck. Less income tax is withheld to provide the benefit of the MWPC; as a result workers could get as much as \$50 per month in increased take-home pay in 2009.

## ***Some eligible workers did not get the MWPC in paychecks***

Workers who did not get the MWPC in their paychecks will need to claim the MWPC as a refund on their 2009 tax return. These include:

- Workers who earned too little to have income tax withheld from their pay;
- Self-employed workers with net earnings who did not reduce the amount of income tax they paid in their quarterly estimated tax returns (low-income self-employed workers often do not file estimated returns); and
- Those who earned enough to have income tax withheld by their employer, but didn't work enough weeks in 2009 to receive their full MWPC. These workers can claim the balance of the MWPC as a refund on their 2009 return.

In order to claim the MWPC, tax filers must complete IRS Schedule M, "Making Work Pay and Government Retiree Credits," and attach it to the tax return.

## ***Who is eligible for the MWPC?***

To qualify for the MWPC in 2009, a worker must have a valid Social Security number and cannot be claimed as a dependent for 2009 by another individual.

- There are no age limits for workers to qualify for the MWPC.
- The MWPC is a maximum of \$400 (\$800 for married couples filing jointly) for workers with adjusted gross income up to \$75,000 (\$150,000 for joint filers). At incomes above those levels, the amount of the MWPC phases out and reaches zero at \$95,000 (\$200,000 for joint filers).
- In the case of married couples who file jointly, at least one spouse must have a valid Social Security number for the couple to qualify for the MWPC. This means one spouse could have an ITIN and the couple could still be eligible for the MWPC.

## ***Will the MWPC affect eligibility for other benefits?***

The MWPC does not count as income in determining eligibility for any other public benefit program funded, even in part, by federal funds. If the worker receives the MWPC as a refund and puts it in a bank account, it does not count toward the resource or asset limit of any such program for two months after the month when the refund was received. The MWPC also does not count as taxable income, so it will not affect eligibility for other credits such as the Earned Income Credit or Child Tax Credit.

## ***Will there be a MWPC in 2010?***

The MWPC will be available to workers in 2010 and will be worth the same amount as for 2009.

To take advantage of the MWPC, employees do not need to make any adjustments to the number of exemptions they claim. Thus, they do not need to give a new IRS Form W-4 “Employee Withholding Allowance Certificate” to their employer. However, some workers should adjust their withholding if they don’t want the MWPC in their paychecks because they may risk owing money back to the IRS:

- workers who are not eligible for the MWPC, such as dependents or those who don’t have a valid SSN. They risk owing additional tax when they file their return if they accept the MWPC increase in their take-home pay. They can avoid this in 2010 by adjusting their withholding on their Form W-4 with their employer to increase their withholding.
- workers who have more than one job. If the amount of income tax withheld is reduced at each job, ultimately they might receive more than \$400 in additional take-home pay from the MWPC and would owe additional income tax at the end of the year. Such workers should increase the amount withheld from their paychecks for any additional job they hold or adjust their Form W-4 with their employer if they start a second job later in the year.

## ***Economic Recovery Payments and the MWPC***

**Economic Recovery Payments.** ARRA also authorized a one-time \$250 “economic recovery payment” to be paid directly in 2009 to recipients of

Social Security retirement or disability benefits, Railroad Retirement benefits and Veterans This payment did not require a tax return to be filed to receive it. The payment doesn’t require a return to be filed in 2010. The payments were sent to the recipient in the same way in which their regular benefit payments were sent.

Individuals who received an economic recovery payment and who also were employed in 2009 will have their MWPC decreased by the \$250 payment when they file their return. They might wish to increase the amount withheld from their paychecks to avoid owing additional income tax in 2010.

**Government Retiree Tax Credit.** The ARRA also provided for a \$250 tax credit that can be claimed for 2009 by certain retirees of federal, state or local government employment whose wages were not covered under the Social Security system, and who may not otherwise receive the Economic Recovery Payment described above.

Such individuals may claim a \$250 credit when filing their 2009 tax return. The credit may be claimed even if the filer doesn’t have enough income to owe tax. This credit will reduce the amount of any MWPC the individual may also receive.

**The economic recovery payment and retiree tax credit do not count as income in determining eligibility for any other public benefit program that is funded, even in part, by federal funds.** If saved, economic recovery payments do not count toward the resource or asset limit of any such program for nine months after the month when the payment was received. The retiree credit does not count toward resource limits for two months after the month it is received. *For more detail on these Economic Recovery Payments, see the fact sheet at [www.cbpp.org/eic2010](http://www.cbpp.org/eic2010).*