



STATE OF MISSISSIPPI
HALEY BARBOUR, GOVERNOR

DEPARTMENT OF FINANCE AND ADMINISTRATION
KEVIN J. UPCHURCH
EXECUTIVE DIRECTOR

MEMORANDUM

TO: State Agency Finance Directors

FROM: Leila Malatesta, Office of Fiscal Management, Director *L. Malatesta*

DATE: April 1, 2009

RE: Withholding Table Modifications - Stimulus Memorandum No. 5

On Sunday, March 1, 2009 the new federal income tax withholding and advanced earned income credit tables went into effect in SPAHRS. These tables reflect changes from the recently enacted Making Work Pay tax credit and the increase in the Earned Income Tax Credit, both components of the American Recovery and Reinvestment Act of 2009 (ARRA), as released by the Internal Revenue Service (Notice 1036). On March 2, 2009, the IRS released Publication 15-T (New Wage Withholding and Advance Earned Income Credit Payment Tables) which gives further guidance on the new withholdings.

The Making Work Pay tax credit will be calculated at a rate of 6.2 percent with a maximum credit of \$400 for single taxpayers and \$800 for married taxpayers and will phase-out for taxpayers with an adjusted gross income of more than \$75,000, or \$150,000 for married couples filing jointly. Married couples should only receive a total maximum credit of \$800. However, if each spouse has a filing status of married on their Form W-4, each could potentially receive the maximum \$800 tax credit. This situation would cause the couple to have less income tax withheld during the year than expected. The couple may then owe taxes when filing for 2009 to compensate for the under withholding. Also, single employees who work more than one job may receive more than the \$400 maximum credit since they could potentially receive the full credit from each employer. Employees will want to take their individual situations into consideration and may want to submit a new Form W-4 to ensure the correct amount of tax is being withheld from their pay.

As instructed by the IRS, each agency should make the attached notice available to all employees so they will be aware of how the new law will affect their withholdings. This notice offers options on how an employee can avoid the under withholding of their taxes.

ARRA temporarily increases the earned income tax credit for families with three or more children. Under current law, working families with two or more children currently qualify for an earned income tax credit equal to forty percent (40%) of the family's first \$12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of \$16,420 (\$19,540 for married couples filing jointly). ARRA increases the earned income tax credit to forty five percent (45%) of the family's first \$12,570 of earned income for families with three or more children. ARRA also increases the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by \$1,880.

DFA will continue to review the ARRA regulations and will provide more guidance as additional information becomes available.

Thank you for your cooperation and assistance in this matter.

Attachment

CC: State Agency Human Resource Officers
State Agency Payroll Officers

Notice to Employees

Changes in Income Tax Withholding

New withholding tables may reduce the amount of income tax withheld from your wages.

The new tables, prescribed by the Department of the Treasury, reflect the Making Work Pay credit and other changes resulting from the American Recovery and Reinvestment Act of 2009.

You do not have to submit a **Form W-4**, Employee's Withholding Allowance Certificate, to get the automatic withholding change. If you do not want to have your withholding reduced (because, for example, you have more than one job or you are married and your combined income places you in a higher tax bracket), you may want to file a new Form W-4 with your employer. You may claim fewer withholding allowances on line 5 or request additional amounts to be withheld on line 6. For additional help, get IRS **Publication 919**, How Do I Adjust My Tax Withholding? or visit the IRS website at www.irs.gov and use the "Withholding Calculator."