

Taxing Times

Tax information for clients and friends of Stambaugh Ness, PC



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By Tax Supervisor Kevin Eisenhart, CPA

CHANGES IN FEDERAL TAX WITHHOLDINGS DUE TO THE "MAKING WORK PAY" TAX CREDIT - HOW WILL IT AFFECT YOU?

The American Recovery & Reinvestment Act of 2009 provided for the refundable "Making Work Pay" Tax Credit. This credit is calculated at a rate of 6.2% of earned income up to \$400 for individual filers and \$800 for married taxpayers. While the credit will be available for wage earners on 2009 and 2010 tax returns, part or all of the credit is actually being realized now through changes in federal tax withholdings tables. How that change may affect each individual will vary.

The credit is phased out for individuals with adjusted gross income (AGI) of \$75,000 - \$95,000 and \$150,000 - \$190,000 for joint filers. Employers will not make a determination of eligibility, they are merely complying with the changes in federal withholdings tables consistent with the employee's W-4.

Some employees may wish to file a new W-4 to avoid under- or over-withholding.

- Individuals working more than one job may have reduced withholdings up to \$400 at each job, exceeding the maximum credit amount.
- Married couples with both spouses earning wages: The new withholdings tables for employees claiming married status on their W-4 may be over-withheld. The new withholdings tables for married, compared with those originally in place, will generally reduce withholdings by about \$600. The married credit is capped at \$800. If both husband and wife are working and both claimed "married" on their W-4's, they could end up with their withholdings reduced by approximately \$1,200.



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- Pension withholdings may also create a problem. The new monthly withholdings tables are also used for withholdings from pensions. Since a pension is not earned income, the recipient is not eligible for the credit unless they are also receiving wages.
- A one-time "economic recovery payment" of \$250 will be paid to those receiving Social Security, VA benefits or Railroad Retirement Benefits. If the recipient is also earning wages, they are entitled to a total of only \$400. The reduced withholdings, in addition to the \$250, will possibly exceed the \$400 credit.

Based on their individual situation, taxpayers may wish to change their current W-4 or W-4P.

Self-employed taxpayers are eligible to claim the credit when their tax return is filed, unless they choose to adjust their estimated tax payments.

KEVIN COMMENTS: *"Multiply your increase in federal tax withholdings by the number of pay periods remaining. If this amount is greater than the credit you will be entitled to, you may wish to file a new W-4."*

1040X - AMENDED US INDIVIDUAL TAX RETURN

Should you need to make a change or adjustment to a previously filed tax return, you can file an amended tax return by using Form 1040X.

- Form 1040X must be filed within 3 years from the date the original tax return was filed, or within 2 years from the date the tax was paid, whichever is later.
- Do not file an amended return before the refund has been received.
- Form 1040X may not be filed electronically.

IRS ISSUES GUIDANCE ON NEW BUILD AMERICA BONDS

The American Recovery & Reinvestment Act creates the Build America Bonds program. This program allows state and local governments to issue taxable bonds for capital projects and to receive a new direct federal subsidy payment from the Treasury Department. The subsidy is for a portion of their borrowing costs equal to 35% of the total coupon interest paid to investors.

KEVIN COMMENTS: *"[IRS news release IR-2009-33](#) provides*

details and links to guidance and other information related to this program."

IMPORTANT! SALES AND USE TAX SEMINAR SET FOR MAY 12

Non-compliance with constantly changing Sales and Use Tax regulations can put your company at risk. What might this mean for your company?

- It may mean increasing taxability rates, changes in the taxability of tangible personal property, and more state audits.
- You may experience substantial financial consequences if you are selected for a sales and use tax audit, since tax liabilities — as well as interest and penalties — may be assessed.
- You could also be overpaying your sales and use tax currently, which is common, since companies pay sales tax or use tax on items which are exempt under the state and local sales and use tax law.

Add Sales and Use Tax to your "to-do list" and [register online](#) now for our Tuesday, May 12 seminar at our York Office.

For more information about any of these tax topics or other tax-related concerns, please contact Kevin or your own SNPC tax professional at 717-757-6999/800-745-8233. You may also reply to this email.