



## **BENEFIT NEWS BRIEFS**

### ***Stimulus Law May Have Adverse Effect On Retirees Due To New Tax Tables***

---

The *American Recovery and Reinvestment Act of 2009 (ARRA)* is the "stimulus bill" that was signed into law February 17, 2009. One part of the *ARRA* reduced the IRS income tax withholding tables effective April 1, 2009 as part of the "Making Work Pay" tax credit. While this is good news for some, as the average worker will see a slight increase in his take-home pay, it may present a problem for retirees who have taxes withheld from their benefit payments based on these tables.

The issue for the retiree is that pension distributions are not eligible for the "Making Work Pay" credit. Thus, if a retiree's federal tax withholding on his pension benefit payment is calculated under the new tables and the retiree is not eligible to receive the "Making Work Pay" credit, then the retiree or beneficiary could owe income tax to the IRS. Retirees may wish to consult their tax advisors to determine if they should take any action to change their withholding amount.

There is no requirement for plan sponsors to advise their pensioners of this possible tax issue, but a plan may wish to make their retirees aware of this tax issue. IRS Publication 15-T has a model "Employee Notice" about *ARRA* and the tax tables that could be used to inform plan members and/or retirees of the change in tax tables and the possible effect on retirees.

A copy of the model Employee Notice is available at page 73 of the tax tables, which are located at <http://www.irs.gov/pub/irs-pdf/p15t.pdf>. A copy of sample language for retirees is available by "[clicking here](#)." IRS Publication 15, (Circular E), [Employer's Tax Guide](#) is available at <http://www.irs.gov/pub/irs-pdf/p15.pdf>.

\* \* \*