

Obama stimulus package contains 6 big paperwork changes for you

February 19, 2009 by Kerry Fitzgerald

Here's a rundown of what you'll have to do differently post-stimulus.

1. Implement new withholding tables. The "Making Work Pay" tax credit means Payroll will begin withholding less federal income tax from workers' pay, probably in June. The average American worker will see about \$13 more per weekly paycheck in 2009, and about \$9 more in 2010. The credit, which amounts to 6.2% of earned income up to \$400 for single taxpayers (\$800 for marrieds) begins phasing out at \$75,000 (\$150,000 for marrieds). Those who don't get the credit through payroll can also claim it on their personal tax returns.

Nonresident aliens don't qualify for this credit - only employees with valid Social Security Numbers.

It's still unclear how companies should handle new hires who may have already received a portion of the credit from a previous employer.

2. Begin new reporting duties on Form 941. To help workers who are involuntarily terminated from work, the government's now offering to subsidize 65% of COBRA premium payments. Here's how it'll work: Once an employee pays his or her 35% share, the company must then front the rest of the money. The employer will pay the insurer directly, then claim the amount as an offset against payroll tax liabilities. Payroll will report any subsidies made and take the offset on an updated Form 941 the IRS will soon release.

Employers will have to pay the premiums for up to nine months for workers (and their families) who are involuntarily terminated between 9/1/08 and 12/31/09. Anyone who was terminated after the 9/1/08 start date and the date's enactment but didn't take the coverage because of the expense has 60 days to elect COBRA and take advantage of the subsidy.

Employees with an annual income of \$125,000 (\$250,000 for families) don't qualify for this assistance.

This provision will take effect with the first COBRA payment period - March 1st, for most employers. Form 941 reporting will also likely be effective for first quarter 2009.

3. Increase reporting to your higher-ups. You may have to more carefully track the wages of certain employee populations. Under the new law, businesses can claim a work opportunity tax credit equal to 40% of the first \$6,000 wages paid to employees in nine particular groups (e.g., unemployed veterans, "disconnected" youth between the ages of 16 and 25 who are not in school, etc.).

4. Change the amount of tax-free transit benefits. Under the new law, employers can offer employees \$230 a month, tax free, in parking and transit benefits for 2009. Previously, there were different dollar amounts allowed for each benefit.

5. Process more Forms W-5. In 2009 and 2010, the stimulus package increases the Earned Income Tax Credit for working families with three or more children to 45% of the family's first \$12,570 of earned income. The bill also increases the start point of the phase-out for married couples filing jointly by \$1,880. As a result of these changes, more workers may submit Forms W-5 to receive the credit. Look for revised Advance Earned Income Tax Credit tables in Publication 15, Circular E.

6. Process more Forms W-4. Other employees may need to fill out a new Form W-4 to adjust their withholding in light of changes to federal income tax withholding (e.g., the ATM patch) and other tax credits (e.g., first-time home buyer credit). Watch for revised withholding tables and additional guidance.