



## RETIREES: NEW TAX RULES THAT MAY AFFECT YOU

Many ERSRI retirees and beneficiaries saw slightly bigger benefit payments beginning with their April 1, 2009, payment. This was the result of new income tax withholding rates issued by the Internal Revenue Service (IRS), which may have ramifications when filing next year's income tax returns. Here are some facts:

- The federal economic stimulus plan recently signed into law provides for a "Make Work Pay" tax credit of \$400 for individuals and \$800 for families, lowering tax obligations by those amounts with the goal of giving taxpayers more disposable income to spend and thus stimulate the economy.
- The IRS issued new income tax withholding tables in February with lower withholding rates to reflect the lower tax obligation that would result from the tax credit. The IRS also ruled pension funds must use the new withholding rates for benefit payments.
- However, under the law, the Make Work Pay tax credit only applies to "earned income." **Pension benefits are not considered earned income, which means the tax obligation for pension benefits does not change.**
- This results in a situation for retirees and beneficiaries in which the tax withholding amount on their benefit payment goes down while their tax obligation has not actually been reduced.
- This situation could result in underpayment of taxes during the year that would have to be made up when filing income tax returns the following year, along with the possibility of penalties for under withholding of taxes during the year.

Effective May 15th, the IRS issued additional withholding tables that apply only to retirement benefits. ERSRI will use these additional tables effective with the June 30 pension payment. This new change will help some pensioners avoid a smaller refund next spring or even a balance due in limited situations.

A wide variety of factors, such as outside jobs and other earned income, can affect how much, if any, withholding is needed by people receiving a pension to satisfy their annual tax liability.

### **So what do you do?**

For plans like ERSRI that adopt the new procedure, the IRS states that withholding on pension payments will be automatically adjusted with no action needed by pensioners. Those who should pay particular attention to their withholding include married couples with two incomes, individuals with multiple jobs, dependents and some Social Security recipients who work. While the IRS points out that withholding on pension payments will be automatically adjusted with no action needed by pensioners, ERSRI encourages members who believe their current withholding is not appropriate for their personal situation to perform a quick check by using the IRS withholding calculator on [www.IRS.gov](http://www.IRS.gov) or directly consult the IRS or a tax advisor.

These new rates will not affect you if you have told ERSRI to withhold a set dollar amount from your check.



## RETIREES: NEW TAX RULES THAT MAY AFFECT YOU

If you wish to tell us specifically how much you would like withheld, based on this new information and your individual circumstances, you may print out and send in a *Certificate of Withholding Preference Or Withholding Tax Change* form or log on to the secure member section of the ERSRI website and make your necessary changes. This form can be filed at any time.

If you recently sent us a *Certificate of Withholding Preference Or Withholding Tax Change* form to make a change based on the tax changes in your April 1, 2009, payment, we suggest you review your individual circumstances again and make adjustments accordingly.

**Please keep in mind that neither ERSRI nor its staff members are tax professionals and cannot give tax advice. We are simply providing this information as a courtesy to our members.**

For information about the Making Work Pay Credit visit ([www.irs.gov/newsroom/article/0,,id=204521,00.html](http://www.irs.gov/newsroom/article/0,,id=204521,00.html)) and Social Security Administration for information about the Economic Recovery Payment (<http://www.socialsecurity.gov/payment/>)