



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
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OFFICE OF THE CHIEF COUNSEL

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The Honorable Ginny Brown-Waite  
Member, U.S. House of Representatives  
16224 Spring Hill Drive  
Brooksville, FL 34604

Dear Congresswoman Brown-Waite :

I am responding to your inquiry of January 8, 2010, on behalf of your constituent, . He asked why the withholding on his monthly military retirement pay increased in 2010.

Withholding tables generally apply to wage payments from employers to employees. Withholding tables determine the withholding on military retirement pay. The increase in withholding on the 2010 payments occurred as a result of changes made to the withholding tables for the Making Work Pay Credit. The Making Work Pay Credit provides a credit against income tax for a taxable year to an eligible individual in an amount equal to the lesser of 6.2 percent of earned income, or \$400 (\$800 in the case of a joint return).

We issued revised withholding tables in February 2009 that reflected the effect of the Making Work Pay Credit. These tables were effective for wage payments beginning no later than April 1, 2009. We compressed the reduction in withholding equal to the entire amount of the Making Work Pay Credit into the nine remaining months of 2009. However, for 2010 wage withholding, we spread the same dollar amount of reduction over 12 months. Thus, the reduction for the credit is smaller each month of 2010, and the amount withheld from each monthly payment is greater.

The tax regulations generally require the same income tax withholding treatment for military retirement pay as wages. Therefore, payors of military retirement pay must use wage withholding tables even though we do not count retirement income in determining a taxpayer's Making Work Pay Credit. However, retirement plan administrators can make an additional adjustment to withholding, which effectively removes the benefit of the Making Work Pay Credit for withholding purposes.

I hope this information is helpful. If you have any questions, please contact me or  
of my staff at .

Sincerely,

Lynne Camillo  
Branch Chief, Employment Tax Branch 2  
(Exempt Organizations/ Employment Tax/  
Government Entities)  
(Tax Exempt and Government Entities)