



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

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The Honorable John Thune
United States Senator
1313 West Main Street
Rapid City, SD 57701

Attention:

Dear Senator Thune:

I am responding to your inquiry of January 15, 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 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.

CONEX-102333-10

2

The Honorable John Thune

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

Sincerely,

Lynne Camillo
Chief, Employment Tax Branch 2
Office of the Associate Chief Counsel/
Division Counsel
(Tax Exempt and Government Entities)