



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

OFFICE OF THE CHIEF COUNSEL

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CC:TEGE:EOEG:ET2
CONEX-112218-10

UIL: 3402.19-00

Dear _____ :

I am responding to your inquiry to Senator Richard Shelby. You asked why the withholding on your monthly retirement pay increased. Senator Shelby wrote to us on your behalf and asked that I respond directly to you.

Withholding tables generally apply to wage payments from employers to employees. Withholding tables also generally determine the withholding on 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 to reflect 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 provide for the same income tax withholding treatment for retirement pay as wages. Therefore, payors of 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.

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I hope this information is helpful. If you have any questions, please contact
, at .

Sincerely,

Nancy J. Marks
Division Counsel/Associate Chief Counsel
(Tax Exempt & Government Entities)

cc: The Honorable Richard Shelby