

Beware of Unintended Stimulus Tax Penalty for Retirees

NEA is currently working to remedy an unintended consequence of the American Recovery and Reinvestment Act that could cause financial hardship for retirees. Background on this issue is provided below. While NEA pushes for a legislative fix, we urge all retirees to contact their financial advisors immediately and adjust their withholding. We ask that you send this information out to your retired members as soon as possible.

Background: The Internal Revenue Service has issued new tax withholding tables to reflect the Making Work Pay credit on earned income that was contained in the American Recovery and Reinvestment Act. While pension benefits are not considered earned income and NOT subject to the Making Work Pay credit, IRS nevertheless instructed the payers of retirement benefits to use the new federal withholding tables. Unfortunately, this likely will result in under-withholding on pension income, and retirees, most of whom are on a fixed income, may find themselves unexpectedly owing taxes at the end of the year.

If the IRS does not modify its position on this matter, benefit payers, acting on the new IRS directive, will begin withholding using tax tables that are known to be inappropriate for most retirees. While pension payers have indicated they will do everything possible to notify retirees of the reason for the change in the net amount of their benefit payment and the potential for under-withholding, the only way benefit recipients can change the withholding amounts is to instruct their pension systems to increase the amount of their withholding. Furthermore, at the close of 2010, they will have to readjust their withholding to reflect the fact that the tables for 2011 will no longer incorporate the Making Work Pay credit.

NEA Advocacy: NEA believes that the IRS should allow the use of the old tables for income that is not eligible for the Making Work Pay Credit. We are actively involved with AFSCME, the National Council on Teacher Retirement, National Association of State Retirement Administrators, and AARP urging the IRS to use the old federal withholding tables. In addition, NEA and its coalition allies are actively lobbying Congress and the Administration to take action averting potential problems with the "Making Work Pay Credit" and retiree pension recipients.

ACTION NEEDED: NOTIFY RETIRED MEMBERS THAT THEY SHOULD CONTACT THEIR FINANCIAL ADVISORS IMMEDIATELY TO ADJUST THEIR WITHHOLDING. SUCH ADJUSTMENT IS CRITICAL TO ENSURE THAT THEY WILL NOT OWE UNEXPECTED TAXES AT THE END OF THE YEAR.

NYSUT Retiree Organizer, May, 2009