

THE SAVER'S CREDIT

Earn an Additional Tax Credit for Contributing to Your Plan



You may be able to pay less tax by contributing to retirement plan or IRA. Called the Saver's Credit, this credit could reduce the federal income tax you pay dollar-for-dollar. The amount of the credit is based on the contributions you make and your credit rate (not to be confused with your credit score). Your credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income – the lower your income, the higher the credit rate. (See the tables below.) Of course, the amount of the Saver's Credit cannot exceed the amount of tax that you would otherwise pay. If your tax liability is zero, then you will not be entitled to the Saver's Credit.

The maximum contribution taken into account for the credit for an individual is \$1,000. If you are married filing jointly, the maximum contribution taken into account for the credit is \$2,000 each for you and your spouse. The credit is available to you in 2015 if you are 18 or older, not a full-time student, not claimed as a dependent on someone else's return, and have adjusted gross income (shown on your tax return for the year of the credit) that does not exceed:

- ▶ \$60,000 if you are married filing jointly,
- ▶ \$45,000 if you are a head of household with a qualifying person, or
- ▶ \$30,000 if you are single or married filing separately.

Amount of 2013 Credit	Joint	Head of Household	Single/Others
50% of first \$2,000 deferred	\$0 to \$36,500	\$0 to \$27,375	\$0 to \$18,250
20% of first \$2,000 deferred	\$36,501 to \$39,500	\$27,376 to \$29,625	\$18,251 to \$19,750
10% of first \$2,000 deferred	\$39,501 to \$61,000	\$29,626 to \$45,750	\$19,751 to \$30,500

See How It Works

Example: Susan and John are married and file their taxes jointly. This year, their adjusted gross income would have been \$34,000 if they had not made any retirement contributions. However, Susan elected to contribute \$2,000 to her plan. John also made a deductible contribution of \$2,000 to an IRA. As a result, their adjusted gross income is \$30,000. If their income tax would have been \$3,000 without having made any retirement contributions, then their federal income tax as a result of making the \$4,000 retirement contributions will be only \$400 after application of the saver's credit and other tax benefits for the retirement contributions. Thus, by saving \$4,000 for their retirement, Susan and John have reduced their taxes by \$2,600.

A Note About Distributions

The contribution eligible for the credit may be reduced by any taxable distributions from a retirement plan or IRA during the year, during the 2 preceding years, or during the period after the end of the year for which you claim the credit and before the due date for filing your return for that year. A distribution from a Roth IRA that is not rolled over is taken into account for this reduction, even if it was not taxable. After these reductions, the maximum annual contribution eligible for the credit per person is \$1,000.

Example: Mark's adjusted gross income this year is low enough for him to be eligible for the credit and he defers \$3,000 of his pay to his 401(k) plan during the year. Last year, Mark took a \$400 hardship withdrawal from his plan and this year he takes an \$800 IRA withdrawal. Mark's saver's credit will be based on contributions of \$1,800 (\$3,000 – 400 - \$800).

How It Affects Your Refundable Credits

The amount of your saver's credit will not change the amount of your refundable tax credits. A refundable tax credit, such as the Earned Income Credit or the refundable amount of your Child Tax Credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes.