

How You May Benefit from “Saver’s Credit”

If you make contributions to your employer’s plan or an IRA, you may be eligible for a tax credit of up to \$1,000 (\$2,000 if married). Called “The Saver’s Credit,” this money-saving feature could reduce your federal income tax dollar-for-dollar.



How the Saver’s Credit Works

The amount of the credit you may receive is based on two things: (1) The contributions you make, and (2) Your credit rate. Your credit rate can be as low as 10% or as high as 50%—depending upon your adjusted gross income—the lower your income, the higher your credit rate. The credit rate also depends on your IRS filing status. Review the tables on the reverse side to determine your credit rate.

The maximum contribution taken into account for an individual’s credit is \$1,000. If you are married filing jointly, the maximum contribution taken into account for the credit is \$2,000 for you and your spouse.

This credit is available only if:

- ◆ You are 18 or over
- ◆ You are not a full-time student
- ◆ You are not claimed as a dependent on another federal tax return
- ◆ You have adjusted gross income (shown on your tax return for the year of the credit) that *does not exceed*:
 - \$55,500 if you are married filing jointly
 - \$41,625 if you are a head of a household with a qualifying person, or
 - \$27,750 if you are single or married filing separately

Example: *Bill and Mary are married and file their federal income tax return jointly. For 2012 their adjusted gross income would have been \$34,000 if they had not made any retirement contributions. During 2012 Mary deferred \$2,000 to her 401(k) plan. Bill made a deductible contribution of \$2,000 to an IRA. As a result of these contributions, their 2012 adjusted gross income is \$30,000. If their federal income tax would have been \$3,000 (after applying any other credits to which they are entitled) without having made any retirement contributions, then their federal income tax as a result of making the \$4,000 in 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, Bill and Mary have also reduced their taxes by \$2,600.*



PENSION PLAN SPECIALISTS, PC
The expertise you need. The attention you deserve.

805 Broadway, Suite 600
Vancouver, Washington 98660
360.694.8409 | 360.696.2113 fax
www.pensionplanspecialists.com

Specifics About the “Saver’s Credit”

The annual contribution eligible for Saver’s Credit may have to be reduced by any taxable distributions from a retirement plan or IRA that you or your spouse may receive. This includes:

- ◆ The year you claim the credit
- ◆ The two preceding years, or
- ◆ The period after the end of the year for which you claim the credit
(before your tax return filing due date)

A distribution from a Roth IRA not rolled over is taken into account for this reduction, even if the distribution is not taxable. After these reductions, the maximum annual contribution eligible for the credit per person is \$2,000.

Your Saver’s Credit amount 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.

In any year, your Saver’s Credit amount cannot exceed the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope Scholarship Credit, then you will not be entitled to the Saver’s Credit.

New Limits & Tax Credit Benefits for Investors

	No 401(k)	With 401(k)
Cindy Smith	2010	2010
Gross Income	\$25,000	\$25,000
401(k) Contribution	\$0	6% (\$1,500)
Employer Match	\$0	\$750
Gross Income on W-2	\$25,000	\$23,500
FICA & Medicare Tax	(\$1,913)	(\$1,913)
Federal Income Tax	(\$1,118)	(\$968)
Bottom Line Tax Credit	\$0	\$750
Net Income:	\$21,969	\$21,369
401(k) Savings	\$0	\$2,250

Tax Filing Status “Married Filing Joint”

Adjusted Gross Income / Saver’s Credit Rate

- \$0 - \$33,000 / 50% of contribution
- \$33,001 - \$36,000 / 20% of contribution
- 36,001 - \$55,500 / 10% of contribution
- Over \$55,500 / Credit not available

Tax Filing Status “Head of Household”

Adjusted Gross Income / Saver’s Credit Rate

- \$0 - \$24,750 / 50% of contribution
- \$24,751 - \$27,000 / 20% of contribution
- \$27,001 - \$41,625 / 10% of contribution
- Over \$41,625 / Credit not available

Tax Filing Status “Single,” “Married Filing Separate,” or “Qualifying Widow(er)”

Adjusted Gross Income / Saver’s Credit Rate

- \$0 - \$16,500 / 50% of contribution
- \$16,501 - \$18,000 / 20% of contribution
- \$18,001 - \$27,750 / 10% of contribution
- Over \$27,750 / Credit not available

This flyer serves as only a summary of the tax credit provision. For more information, please see your Plan Administrator. Pension Plan Specialists does not provide tax, financial, accounting or legal advice. This flyer is provided solely for informational purposes. Participants are encouraged to consult with their legal representatives and/or tax advisors about how issues addressed herein may affect their plan.