Internal Revenue Service's Retirement Savings Contribution Credit

Plan participants with low to moderate incomes may be able to claim a dollar-for-dollar tax credit under the Internal Revenue Service's Retirement Savings Contribution Credit, commonly known as the Saver's Credit.

A retirement plan participant who is at least 18 years of age, is not a full time student, is not claimed as a dependent on another individual's tax return, and whose adjusted gross income meets certain tax year limitations, may be eligible to claim a tax credit on their tax return if they have made eligible contributions to the plan (for example, salary deferrals to a 401(k) plan).

The IRS' Retirement Savings Contribution Credit, more commonly known as the Saver's Credit, allows an eligible tax payer to reduce their income tax dollar-for-dollar (but not less than zero). The amount of the Saver's Credit is calculated based on the tax payer's contributions to the plan and their credit rate. The credit rate can be as low as 10% or as high as 50% of the first $2,000 contributed to the plan, depending on the tax payer's adjusted gross income and filing status.

A tax payer filing as a single filer will be eligible for the Saver's Credit if their adjusted gross income does not exceed $28,750 in 2012 or $29,500 in 2013. For a single filer the maximum credit is $1,000.

A married couple filing jointly will be eligible for the Saver's Credit if their adjusted gross income does not exceed $57,500 in 2012 or $59,000 in 2013. The maximum credit available for the married couple filing jointly is $2,000 ($1,000 credit per spouse).

The amount of the credit that is available is phased out as the tax payer's adjusted gross income approaches the maximum limit for their filing status. The phase out schedule can be found in IRS Form 8880 *Credit for Qualified Retirement Savings Contributions.*

The Saver's Credit can be a terrific talking point at enrollment meetings for employers that sponsor contributory type plans, like a 401(k) plan, to encourage employees with lower incomes to participate in the plan. Sponsors of 401(k) plans and other contributory types of plans (such as 403(b) plans, Simple IRA plans, and 457 plans), may want to review their enrollment material and make certain that their enrollment kits include information on the Saver's Credit.

Plan participants should be encouraged to discuss the Saver's Credit with their tax advisor. Participants and employers can also find more information on the Saver's Credit by visiting the IRS website at www.irs.gov.

If you have any questions, or if you would like to discuss the Saver's Credit in more detail, please do not hesitate to contact Trombino Pension Administrators, Inc.

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