

Sy Accountancy Corporation

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

SAVER'S CREDIT

By Victor Sy, CPA, MBA

A special "saver's credit" is available for eligible taxpayers who contribute to any qualified plan (IRA, ROTH IRA, 401(k), 403(b), SEP, or SIMPLE plans).

1. You can claim this friendly tax credit up to a maximum amount of **\$2,000**.
2. The **credit could reduce your federal income tax dollar for dollar** as opposed to an expense deduction that gives you some benefit depending on your tax bracket. For example, an expense deduction of \$2,000 yields a benefit of \$500 if you are in the 25% bracket. A tax credit of \$2,000 on the other hand gives you a benefit of the full \$2,000. ☺
3. This credit is **in addition** to your deduction for contributing to a traditional or ROTH IRA, Simple IRA, salary reduction SEP, 401(k), 403(b), or government 457 plans.
4. In other words, you can **deduct** contribution to a traditional IRA and **also get a credit of \$2,000**.
5. The credit **offsets both regular income tax and the unpopular alternative minimum tax (AMT)** that kicks in if you do not pay your fair share of taxes via excess deductions and losses.
6. The credit is **nonrefundable** – it can reduce your taxes but it cannot create a refund.
7. You are eligible if you are **18 years** or older and are not a full-time student or a dependent on somebody else's tax return. (TIP: Give certain amounts to your child who can then get the deduction, credit, and the retirement funding).
8. The rate ranges from **10% to 50%** depending on your Adjusted Gross Income (AGI).
9. Your **AGI must be less than the following amounts**:
 - A. **\$28,250** for single and married filing separate returns,
 - B. **\$42,375** for heads of households,
 - C. **\$56,500** for married filing joint returns.
10. The credit is **reduced by taxable distributions** during the year and the two taxable years that precede the year of credit. For example, if you contribute \$3,000 to a 401(k) during the year but you had taken a \$500 IRA withdrawal last year and \$1,000 during the current year, your credit is \$3,000 - \$500 - \$1,000 = \$1,500 (instead of \$2,000 if no withdrawals were taken).
12. The credit is **not reduced by rollovers** from a traditional IRA to a Roth IRA, loans from a qualified employer plan that are treated as distributions, and returns of excess contributions or deferrals.
13. You may **research** this credit further by reading Code Section 25B of the Internal Revenue Code or Section 618 of the Economic Growth and Tax Reconciliation Act of 2001.

Good day.