Financially Speaking
With Trisha Arndt

The Savers Credit Can Help You Put Money Away for Retirement

One of the most rewarding parts of what I do is when I get to sit down with a young person that is just getting started in their first job and is making decisions about whether to contribute to a retirement account. I often do meetings like these as a favor for a client who asks me to talk to their family member or friend about the potential benefits of starting to save young and taking advantage of things like employer matching contributions.

While I can happily extoll upon all of the benefits of saving for retirement and offer real world examples of people who started saving young and accumulated significant amounts of money over time, I especially like when I can also pair that conversation with information about a special tax break that they may qualify for at the same time. That is where the Savers Credit comes in.

At one time called the Retirement Savings Contributions Credit, the Savers Credit is a special tax benefit that gives an extra tax credit to low- and moderate-income taxpayers that are saving for retirement. It came out of the Economic Growth and Tax Relief Reconciliation Act of 2001 and was designed to encourage retirement savings among those who often can least afford to save.

The credit is determined and applied when filing your federal income tax return and is in addition to any other tax benefits you receive from contributing to the retirement account. Because it is a credit, it is a direct reduction in the amount of tax you owe, not a deduction from your income.

The credit is calculated as a percentage of the amount you contribute to a qualified retirement account, with the percentage dependent on your Adjusted Gross Income (AGI) for the year. In 2019 single individuals with an AGI below $19,250 would qualify for the maximum credit, which is 50% of up to $2000 in contributions.

In other words, if you fall in that category and you contribute $2000 or more to a qualifying retirement account for yourself, you could receive a Savers Credit on your federal tax return of up to $1000.

The Savers Credit is available to some degree for single individuals over age 18 with Adjusted Gross Incomes of up to $32,000 and married couples with Adjusted Gross Incomes of up to $64,000 in 2019. You also cannot be a fulltime student or be claimed as a dependent on someone else's tax return to qualify.

The keys to taking advantage of the Savers Credit are contributing money to a specified type of retirement account for yourself and then knowing to take advantage of the credit on your tax return. Your contributions to a 401k, 403(b), Simple IRA, SEP IRA, traditional IRA, Roth IRA or 457 plan would all qualify for the credit but you cannot take the credit based on contributions that your employer made on your behalf.

To claim the credit you will file IRS Form 8880 with your federal income tax return.

In 2010 the Transamerica Center for Retirement Studies conducted an on-line survey which determined that only 12% of American workers with annual household incomes below $50,000 where even aware that the Savers Credit exists. I suspect that a number of people that should have received it over the years didn't, simply because they didn't file the form to claim it.

There are many reasons to save for retirement, even when you are young and just starting out. The Savers Credit is one way to help make it more affordable.

This article is for informational purposes only and is not intended as tax advice. Each individual should consult a qualified tax advisor before making decisions related to their own situation.

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