

BUILDING YOUR NEST EGG: SAVER'S CREDIT REWARDS

LOW- AND MIDDLE-INCOME TAXPAYERS FOR RETIREMENT PLAN CONTRIBUTIONS

What is the Saver's Credit?

For tax years through 2006, a tax credit called the Saver's credit is available that rewards low- and middle-income taxpayers for contributing to a retirement savings plan. You receive a dollar-for-dollar reduction in your taxes, up to \$1,000.

The Saver's credit provides a rare case of "double dipping" under the tax law - you can benefit from both the Saver's credit and any additional tax benefits you receive from contributing to a retirement account. For example, contributions to an IRA may be tax deductible, while contributions to an employer's retirement savings plan may also be subtracted from your taxable income and considered "pre-tax."

Who Benefits and How Much?

The Saver's credit applies to taxpayers whose modified adjusted gross income (MAGI)ⁱ is \$50,000 or less for a married couple filing jointly; \$37,500 or less for a head of household; and \$25,000 or less for a single taxpayer.

The amount of the credit is calculated by applying a percentage rate (50 percent, 20 percent or 10 percent) to the contribution amount. The percentage rate is determined according to MAGI, as summarized in the following chart:

Modified Adjusted Gross Income			
Married filing Joint	Head of Household	Other	Credit Rate
\$0-\$30,000	\$0-\$22,500	\$0-\$15,000	50%
\$30,001-\$32,500	\$22,501-\$24,375	\$15,001-\$16,250	20%
\$32,501-\$50,000	\$24,376-\$37,500	\$16,251-\$25,000	10%
More than \$50,000	More than \$37,500	More than \$25,000	No Credit

The Saver's credit applies to retirement contributions up to \$2,000. The maximum credit available to you is \$1,000 (\$2,000 ÷ the 50 percent rate). For married taxpayers, the maximum credit available is \$2,000, if both spouses make contributions to retirement plans.

Following are some additional rules that apply to the Saver's credit:

- To calculate the Saver's credit, you'll need to know the amount of your qualified contributions. Qualified contributions for 2003 are defined as the lesser of (1) \$2,000 or (2) the amount contributed to IRAs and other qualified plans for tax year 2003, minus amounts taken out of all qualified plans

from Jan. 1, 2001 through the due date of the 2003 return, including extensions. (Example: Taxpayer A withdrew \$1,500 on Jan. 1, 2002 from his 401(k) plan. He contributed \$5,000 to his 401(k) in 2003. His qualified contribution is \$2,000, the lesser of (1) \$2,000 maximum eligible or (2) \$5,000 contribution - \$1,500 distribution = \$3,500.)

- The Saver's credit is available for traditional and Roth IRA contributions, as well as for employee contributions to most employer plans: 401(k)s, 403(b)s, 457s, SEPs, SIMPLEs, defined contribution and defined benefit plans. Certain civil service plans, especially most state 414(h) plans, do not qualify.
- The credit is nonrefundable, meaning if you owe nothing in taxes, or owe less than the amount of what your Saver's credit would be, you will not receive a refund payment.

// I've seen statistics that claim 70 percent of American workers have not yet started to save for retirement, nor have they calculated the retirement dollars they'll need for their golden years. //

— Jackie Perlman, CPA,
Senior Tax Research Analyst

For more information or to schedule an interview contact:
Denise Sposato, PR Manager, US Tax (816) 932-4909
Nancy Wagoner, PR Specialist, US Tax (816) 932-4823

- You must be age 18 or over by December 31, must not be claimed as a dependent on another taxpayer's return, and must not be a full-time student .ⁱⁱ

To learn more, try out H&R Block's Saver's credit Calculator:<http://www.hrblock.com/taxes/tools/savers/indes.html>

ⁱ Generally, MAGI is adjusted gross income without regard to the foreign earned income exclusion and exclusions of income from Puerto Rico and U.S. possessions.

ⁱⁱ Generally, a full-time student (by the school's standards) is at an educational organization for at least five months during the tax year.