

IRAs

Understanding the IRA Contribution Credit

(or Saver's Credit)

Questions & Answers

Purpose of the IRA Saver's Credit:

The purpose of this brochure is to explain the tax credit available for certain IRA accountholders and pension plan participants who contribute to their traditional IRA, Roth IRA or 401(k) plan.

By making a contribution, certain individuals qualify for a tax credit which substantially reduces the amount of income tax a person must pay. On August 17, 2006, President Bush signed into law The Pension Protection Act of 2006. Unless repealed by a future law change, it made permanent the tax credit as originally authorized by The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

Senator Max Baucus (D-Mont) and Senator Chuck Grassley (R-Iowa) are senior members of the Senate Finance Committee and are strong proponents of the Saver's Credit. In July of 2007, a press release was issued calling on the Internal Revenue Service (IRS) to do a better job of publicizing the Saver's Credit, a non-refundable tax credit that encourages low-to middle-income Americans to save money for retirement. These senators believe many eligible tax-payers are not claiming the Saver's Credit (and realizing the tax benefits) simply because "they don't" know about it. Unfortunately, not as many people are aware of the IRA Saver's Credit as should be.

The purpose of this brochure is to furnish you with information so you can learn about the Saver's Credit. If you qualify, hopefully, this credit will encourage you to make traditional and/or Roth IRA contributions.

Is the tax credit an additional tax benefit?

Yes. It is in addition to the standard tax benefits which relate to a traditional IRA and a Roth IRA. These standard tax benefits are explained in the final question and answer.

What is the difference between a tax credit and a tax deduction?

A tax credit is much more valuable than a tax deduction, because a tax credit reduces one's tax liability on a dollar-for-dollar basis, whereas a tax deduction only reduces one's taxable income amount. For example, a person who is in the 28% marginal income tax bracket who can claim a \$1,000 tax deduction would receive a \$280 tax benefit, whereas a person who is entitled to a tax credit of \$1,000, would receive a \$1,000 tax benefit.