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. 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, many people including tax preparers, are not as 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.

How do I qualify or earn this IRA contribution credit?

You will need to make a contribution to a traditional IRA or a Roth IRA. You also qualify for this credit if you make an elective deferral to a 401(k) plan or SIMPLE IRA plan. Since this brochure is about IRAs, we have called this credit the IRA contributions credit. In other publications you may see the term, "credit for elective deferrals and IRA contributions" used. The maximum contribution amount which will be taken into account to determine the credit is $2,000. All contributions made by a person to a traditional and/or Roth IRA must be added together with the same person's elective deferral contributions to a 401(k), a governmental section 457 plan, or a SIMPLE plan.

What are the requirements to enable me to receive this credit?

You must meet the following five requirements in order to claim this credit for any given year.

1. Be at least 18 years of age as of December 31 of such year
2. Not be a dependent on someone else's tax return
3. Not be a student as defined in Internal Revenue Code section 25B(c)
4. Have adjusted gross income under certain limits which are based on your filing status:*

	2015	2016
Joint filers	$61,000.01	$61,500.01
Head-of-Household	$45,750.01	$46,125.01
All other filers (including Married, filing separately)	$30,500.01	$30,750.01

5. Must not have received certain distributions which disqualify you from claiming the credit, or certain distributions which were made to your spouse. Because of the complexity of this credit, you will want to review IRS Publication 590 for a complete explanation.

Are there any other eligibility rules?

No. If the five requirements listed above are met, you are eligible for the credit. Note that there is an income limit, but no asset test. This means that those individuals who have a low to moderate income, but who may be considered wealthy or moderately so because of assets, will be eligible for this credit. Also, there is no eligibility rule which would prevent a low to moderate income person from borrowing funds to make contributions.

If I have substantial assets, but a low to moderate income, then will I be eligible for this credit?

Yes. Even if you are wealthy (i.e. have accumulated assets), you will still be eligible to claim this credit if you make an IRA contribution and are under the defined income limits.

What is the amount of the tax credit?

The credit may vary from $1 to $1,000, depending on the amount you have contributed to your IRA.

How is the tax credit amount determined?

A formula is used to calculate the amount of your credit. This formula is complex, since it requires you to reduce your qualifying contributions by the amount of certain distributions — even by the amount of certain distributions to your spouse, if you are married.

The formula to be used is:
Contributions - Certain Distributions x Applicable % = Credit

Contributions equal the sum of contributions to a traditional IRA, contributions to a Roth IRA, elective deferrals to a 401(k) plan, elective deferrals under a section 457 plan, and certain voluntary employee contributions. This total contribution amount must be reduced by certain distributions which occur during a testing period. The testing period for a tax year is comprised of the current tax year, the two preceding tax years, and the carry-back period for such tax year (i.e. January 1 to April 15), plus extensions.

Therefore, the total contribution amount must be reduced by any distribution amounts paid to you or your spouse during the above-described period from a section 401(a) plan, 401(k) plan, section 402(a) plan, section 457 plan, a traditional IRA, or a Roth IRA, which are not rolled over.

Are there certain distributions which will not need to be subtracted from my IRA contributions?

Yes. If you or your spouse convert funds from a traditional IRA to a Roth IRA, then this distribution will not reduce the qualifying contribution amount. Secondly, if you (or your spouse) withdraw an excess contribution from a traditional IRA, Roth IRA, 401(k) plan, or other qualified plan, then this distribution will not reduce the qualified contribution amount.

What is the maximum contribution amount which will be considered?

The maximum contribution amount allowed to be used in calculating this credit is $2,000, even though you may have contributed more than that amount to your IRA.

How is the applicable percentage determined?

The applicable percentage for 2015 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$36,500	50%
$36,500	$39,500	20%
$39,500	$61,000	10%
$61,000	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$27,375	50%
$27,375	$29,625	20%
$29,625	$45,750	10%
$45,750	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$18,250	50%
$18,250	$19,750	20%
$19,750	$30,500	10%
$30,500	N/A	0%

The applicable percentage for 2016 is based on modified adjusted gross income (AGI) and your tax-filing status, and is determined by the following table:

Joint Return

AGI Over	AGI Not Over	Percentage
$0	$36,500	50%
$36,500	$39,500	20%
$39,500	$61,500	10%
$61,500	N/A	0%

Head of Household

AGI Over	AGI Not Over	Percentage
$0	$27,375	50%
$27,375	$29,625	20%
$29,625	$46,125	10%
$46,125	N/A	0%

Other Filers Including Married, Filing Separately

AGI Over	AGI Not Over	Percentage
$0	$18,250	50%
$18,250	$19,750	20%
$19,750	$30,750	10%
$30,750	N/A	0%

What is the value of the tax credit?

It is more valuable than a tax deduction. It reduces a person's tax liability dollar for dollar. For example, Jane has a tentative tax liability of $1,000. If she makes an IRA contribution of $2,000 and she is entitled to the 50% tax credit rate, then her tax liability is reduced to zero.

Is this IRA contribution credit refundable?

No, this credit is nonrefundable, and it is meant to be used to reduce a person's regular tax liability and alternative tax liability. If the credit is greater than your tax liability, you may use only the amount of credit necessary to reduce your tax liability to zero (0) — any amount of credit remaining will not be refunded to you.

Can I still claim this credit when claiming other credits to which I am normally entitled?

There are "ordering" rules for this new credit. This new credit can only be applied after applying the credit for child and dependent care expenses, and after the child tax credit. If the use of these credits reduces your tax liability to zero (0) (in other words, these credits are greater than or equal to your tax liability), then you will not be able to claim this contributions credit.

Does this credit affect the taxation of a distributions from a traditional or Roth IRA?

No, the receipt of this credit by you will have no effect on the taxation or nontaxation of the distribution of your traditional and/or Roth IRA contributions. For income tax purposes, your contributions will be treated as if the credit had not been taken.

What would the 2015 IRA tax credit be in the following situations?

Situation #1. Mark and Greta are married, file a joint return and have modified adjusted gross income of $33,000. Each contributes $500 to an IRA. The applicable credit percentage is 50%, since their AGI is not over $36,500. Each will be entitled to a $250 tax credit ($500 x 50%). Jointly, the tax credit amount will be $500.

Situation #2. Sam and Betty are married, file a joint return and have a modified adjusted gross income of $55,000. Each contributes $2,000 to an IRA. The applicable credit percentage is 10%, since their AGI is not over $61,000. Each will be

entitled to a $200 tax credit ($2,000 x 10%). Jointly, the tax credit amount will be $400.

Situation #3. Robert is widowed and has a son and a daughter. He has adjusted gross income of $23,950. He contributes $1,000 to his IRA. He is entitled to a tax credit of $500 ($1,000 x 50%) as he is a head of household.

Situation #4. Victoria is single. She has adjusted gross income of $28,300. She contributes $2,000 to her IRA. She is entitled to a tax credit of $200 ($2,000 x 10%).

What will I need to do to take advantage of this credit?

You need to make an IRA contribution to either your traditional IRA and/or Roth IRA once you have determined that you are eligible for this credit. And you will need to claim this credit on your tax return.

How do I establish an IRA if I don't have one?

Please see us and we will assist you. Set forth below is a summary of the basic rules for a traditional IRA and the Roth IRA. You may want to establish one or both of these IRAs.

What is a traditional Individual Retirement Account (traditional IRA)?

A traditional IRA is a special tax-deferred savings account authorized by Internal Revenue Code section 408. It is a unique and simple way to encourage people to save money for retirement.

What are the tax benefits realized from a traditional IRA?

Generally you may contribute the maximum annual contribution. If your contribution is tax deductible, then you receive two tax benefits: 1) an immediate tax savings because you will pay fewer taxes because of the deduction and 2) the earnings generated by the IRA funds are not taxed until distributed. If your contribution is not tax deductible, you still receive the tax benefit of tax deferral on the IRA's earnings.

What are the contribution limits for a person who is not age 50 or older?

Tax Year	Amount
2008-2012	$5,000
2013-2016	$5,500

What are the contribution limits for a person who is age 50 or older?

Tax Year	Amount
2008-2012	$6,000
2013-2016	$6,500

Am I eligible to contribute to a traditional IRA?

You are eligible for a regular contribution if you do not reach age 70½ in the calendar year for which you wish to make the contribution, and you have compensation (income earned from performing material personal services). You may also qualify for a rollover or a transfer contribution.

What is a Roth Individual Retirement Account (Roth IRA)?

A Roth IRA is a type of tax-preferred savings and investment account authorized by Internal Revenue Code section 408A. The Roth IRA allows you to accumulate assets for retirement purposes and for other purposes.

What is the tax benefit realized from a Roth IRA?

A Roth IRA will produce tax-free income if certain rules are met. You or your beneficiary(ies) will not be required to include in income, for income tax purposes, a distribution paid from a Roth IRA, whether it be the return of a contribution or the account's earnings, if certain rules are met.

Am I eligible to contribute to a Roth IRA?

You are eligible if you satisfy the following two requirements: (1) you have earned income or compensation; and (2) you meet certain income limitations. Be aware that you are eligible to make contributions to a Roth IRA even though you are age 70½ or older. For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA and/or a Coverdell Education Savings Account. You may also qualify for a rollover or transfer contribution.

May I contribute to my traditional IRA and also my Roth IRA?

Yes, but you are subject to the applicable contribution limit for such year.

The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.

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