

## The Saver's Credit Extra Tax Advantages for Investors

The Saver's Credit is a little-known tax credit that is generally available to participants who contribute to retirement plans. In addition to offering automatic enrollment and generous matching contributions to encourage retirement plan participation, employers can increase awareness to help improve participation and salary deferrals.

### An Unknown Tax Benefit

This tax credit incentivizes saving. Increased plan participation benefits both employers and savers. (E.g., highly compensated employees may be allowed to contribute at higher rates if non-highly compensated employees participate at a high rate). And even for plans that don't need to worry about discrimination testing that limits contributions for highly compensated employees, it's still rewarding to help employees start their journey toward a secure financial future for their retirement years.

### Nuts and Bolts

A portion of contributions (rollovers not included) made to employer-sponsored retirement plans and IRAs may be claimed as a tax credit, subject to the following criteria:

- The saver must be age 18 or older
- The saver must not be a full-time student
- The saver must not be claimed as a dependent on another person's tax return

If these criteria are satisfied, the amount of the credit then depends on the saver's adjusted gross income (AGI) and tax filing status. The credit may be 10%, 20%, or 50% of certain contributions made by the employee, up to \$2,000 in employee contributions, for a maximum potential credit of \$1,000 per person. A couple preparing their 2022 income tax return under the status of married filing jointly can possibly receive as much as a \$2,000 credit. Following are the AGI limitations applicable to claiming the credit for the 2022 income tax year:

Credit Rate	Married filing jointly	Head of household	All other filers*
50% of your contribution	Not more than \$41,000	Not more than \$30,750	Not more than \$20,500
20%	\$41,001 - \$44,000	\$30,751 - \$33,000	\$20,501 - \$22,000
10%	\$44,001 - \$68,000	\$30,001 - \$51,000	\$22,001 - \$34,000
0%	More than \$68,000	More than \$51,000	More than \$34,000

\* Single, married filing separately, or qualifying widow(er)

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The credit can be taken for contributions made to the saver's traditional or Roth IRA; elective deferrals made into a 401(k), 403(b), SIMPLE IRA, SARSEP, or governmental 457 plans; and, after-tax contributions that are made into a qualified plan or 403(b) plan. The credit is claimed using IRS Form 8880, and is submitted along with the saver's IRS Form 1040 (or similar return).

The saver should be careful not to take certain distributions, since the credit may be reduced by distributions made during the testing period.

Refer to the IRS webpage, Retirement Savings Contributions Credit (Saver's Credit), for more information. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

### **Employers: Get the Word Out**

There are several ways that employers can increase awareness of the Saver's Credit:

1. Mention the credit within employee communications sent by mail or email.
2. Discuss the credit during education meetings about the plan.
3. Auto-Enrollment

Whatever the method, increasing awareness of the credit and encouraging savers to take advantage of it will help ensure that employers and savers alike can benefit from increased retirement readiness.

### **Ready to discuss?**

Book a free consultation at [www.RetirementPartnersofCalifornia.com](http://www.RetirementPartnersofCalifornia.com)

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