Tax Credit for IRAs and Retirement Plans (Saver's Credit)

What is it?

The Economic Growth and Tax Relief Reconciliation Act of 2001 made significant changes to IRAs and retirement plans. One provision of the act allows some low- and middle-income taxpayers to claim a partial, nonrefundable income tax credit (the "saver's credit") for contributing to certain tax-deferred retirement savings vehicles. The credit can be applied against the taxpayer's regular income tax liability (or minimum tax liability, if paying under the alternative minimum tax system) and is in addition to any income tax deduction the taxpayer receives for making the contribution. The purpose of this provision is to encourage retirement savings among those who, typically, can least afford to save.

What retirement savings vehicles are eligible for the tax credit?

The tax credit is available for elective contributions made to traditional IRAs, Roth IRAs, and the following employer-sponsored retirement plans: Section 401(k) plans, Section 403(b) annuities, Section 457(b) plans, SIMPLE plans, and SEP plans. Voluntary after-tax employee contributions made to a qualified retirement plan also qualify for the credit.

Who is eligible for the tax credit?

Not everyone who contributes to the retirement savings vehicles mentioned previously is eligible for the tax credit. To claim the credit, you must be at least 18 years old and not a full-time student or claimed as a dependent on another taxpayer's income tax return. In addition, there are income requirements that must be met. If you and your spouse file a joint income tax return, you can claim the credit for 2017 only if your combined adjusted gross income (AGI) for the year is $62,000 or less. If you file as head of household, you can claim the credit only if your AGI is $46,500 or less. Finally, if you file as an unmarried taxpayer or married filing separately, you can claim the credit only if your AGI is $31,000 or less.

How much is the tax credit?

The maximum annual contribution eligible for the tax credit is $2,000, and the maximum credit rate is 50 percent of the amount contributed. This means that the maximum possible credit that a taxpayer could receive in one year is $1,000. However, not everyone who qualifies for the credit will be able to claim the full credit. The specific amount of your credit (if any) in any year will depend on three factors: your AGI for the year, your income tax filing status for the year, and the amount of your IRA or retirement plan contribution for the year. The following tables (for 2016 and 2017, respectively) provide the credit rates based on AGI and filing status:

2016

Joint Filers	Heads of Household	Single Filers	Credit Rate
$0 - $37,000	$0 - $27,750	$0 - $18,500	50% of contribution (up to $2,000)
$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000	20%
$40,001 - $61,500	$30,001 - $46,125	$20,001 - $30,750	10%
Over $61,500	Over $46,125	Over $30,750	0%

2017

Joint Filers	Heads of Household	Single Filers	Credit Rate
$0 - $37,000	$0 - $27,750	$0 - $18,500	50% of contribution (up to $2,000)
$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000	20%
$40,001 - $62,000	$30,001 - $46,125	$20,001 - $30,750	10%
Over $62,000	Over $46,500	Over $31,000	0%

Finally, be aware that the amount of any contribution eligible for the credit may be reduced by any taxable distributions that you and your spouse receive from any of the retirement savings vehicles mentioned previously (or from any other qualified retirement plan). This reduction applies to distributions received during the same tax year that the credit is claimed, the two tax years prior to the tax year that the credit is claimed, and during the period after the end of the tax year and prior to the due date for filing your tax return for the year. In the case of a Roth IRA, this rule applies to any distributions received, whether taxable or nontaxable.