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March 9, 2011

6 Things you Should Know about Savers Credit

Did you know that if you contribute towards your employer's retirement plan or to an individual retirement arrangement, you can receive a tax credit? The tax credit is called the Retirement Savings Contributions Credit or popularly known as Savers Credit for short.

Here are 6 things you should know about the Savers Credit:

1. The eligibility is for those who are single, married but filing taxes jointly or widow/widower. The income limit for widow or widower is $27,750, head of household is $41,625 and married filing jointly is $55,500.

2. Your date of birth must not be later than January 2, 1992 and you must not have been a full-time student during the calendar year or be listed as a dependent in another taxpayer's claims.

3. If you contribute towards a 401(k), another qualified IRA or retirement plan, you may still claim a credit of $1,000 or $2,000 if filing jointly. The credit amount is a percentage of your contributions, which depends on your income (the highest percentage is for those with the lowest income).

4. To calculate the amount of credit, you generally have to take the

distributions you received from your retirement plan and subtract it from the contributions you have made. This needs to be done for the distributions received in the two years before the year the credit is claimed, the year the credit is claimed, and the period after the end of the credit year but before the due date – including extensions – for filing the return for the credit year.

5. Your Saving Credit will be granted in addition to other tax benefits that come from your retirement contributions. For example, you may still deduct all or part of your contributions to a traditional IRA. Contributions to a regular 401(k) plan are not subject to income tax until withdrawn from the plan.

6. The form you would need to use to claim the Savers Credit is Form 8880, Credit for Qualified Retirement Savings Contributions.