

# Do you qualify for the Saver's Tax Credit?

Do you or your spouse, if filing jointly, make contributions to a qualified employer sponsored retirement plan (QRP) such as a 401(k), to an Individual Retirement Account (IRA) or to an Achieving a Better Life Experience (ABLE) account as the designated beneficiary? Did you know that in addition to deducting the amount of your contributions, you may be able to claim an additional credit for those same retirement contributions? The Saver's Tax Credit rewards certain taxpayers who contribute to a retirement plan.

## What is a tax credit?

A tax credit reduces your tax liability dollar-for-dollar, so it's worth more than a deduction. This credit is in addition to any potential deduction received when contributing to a retirement plan. The Saver's Tax Credit is a non-refundable credit. That means the credit can reduce the tax you owe to zero, but it can't provide you with a tax refund.

## How much could my credit be worth?

The exact amount of the Saver's Tax Credit is based on how much you contributed and what percentage of your contributions qualify. This credit is equal to 10%, 20%, or 50% of your contribution depending on your Adjusted Gross Income (AGI) and your tax filing status. However, the maximum contribution eligible for the credit is \$2,000. So even if you are an aggressive contributor to your retirement plan and save the maximum amount, you will still only be eligible to consider \$2,000 of your contribution when calculating the credit. The maximum credit for single filers is \$1,000 which is 50% of the \$2,000 maximum contribution eligible for credit. The maximum credit for couples who are married and filing jointly is \$2,000 which is 50% of the \$4,000 maximum contribution eligible for credit. The credit is phased out when your AGI exceeds the limits in the boxes below:

## 2019 limits

Credit rate	Single, widow(er), or married separate filer income limits	Married, joint filer income limits	Head of household filer income limits
50%	Up to \$19,250	Up to \$38,500	Up to \$28,875
20%	\$19,251 to \$20,750	\$38,501 to \$41,500	\$28,876 to \$31,125
10%	\$20,751 to \$32,000	\$41,501 to \$64,000	\$31,126 to \$48,000
No credit	More than \$32,000	More than \$64,000	More than \$48,000

## 2020 limits

Credit rate	Single, widow(er), or married separate filer income limits	Married, joint filer income limits	Head of household filer income limits
50%	Up to \$19,500	Up to \$39,000	Up to \$29,250
20%	\$19,501 to \$21,250	\$39,001 to \$42,500	\$29,251 to \$31,875
10%	\$21,251 to \$32,500	\$42,501 to \$65,000	\$31,876 to \$48,750
No credit	More than \$32,500	More than \$65,000	More than \$48,750

The Saver's Tax Credit limits can be found at <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>.

### INVESTMENTS AND INSURANCE PRODUCTS:

**NOT FDIC INSURED | NOT BANK GUARANTEED | MAY LOSE VALUE**

Together we'll go far



## What plans and accounts qualify for the Saver's Tax Credit?

If you, not your employer, contribute to any of the following, you may qualify for the credit:

- 401(k)
- 403(b)
- ABLÉ account
- Governmental 457(b)
- Thrift Savings Plan
- Traditional IRA
- Roth IRA
- Salary reduction SEP IRA
- SIMPLE IRA

### Do you qualify for the Saver's Tax Credit?

- The credit is for those who are age 18 or over by the end of the applicable tax year and not being claimed by another as a dependent.
- You cannot be a full-time student, or have been one for five or more months out of the year.
- Your income is within or is under the phase-out limits.
- You, or your spouse, if filing jointly, but not your employer, must have contributed to your QRP or IRA for the tax year you are claiming the credit.
- ABLÉ contributions you make as the designated beneficiary are eligible for the credit.
- Amounts rolled into an IRA from another IRA or QRP or to an ABLÉ account from another ABLÉ account or Qualified Tuition Plan are not eligible for the credit.
- Your eligible contributions may be reduced by any recent distributions you received from a QRP, an IRA or ABLÉ account.

### Key considerations

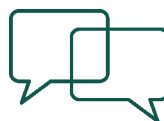
- Since the credit is available to individuals, married individuals can each claim the credit if they qualify.
- Married couples who file separately may benefit if one spouse has low enough income to qualify, even though if they filed jointly neither spouse could qualify.
- When calculating the credit, you must deduct from the contributions you have made the amount of any QRP, IRA or ABLÉ account distributions you received in the current tax year and in the previous two tax years, that was not rolled over.

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- With some creative planning, the credit might benefit certain wage earners.
  - Gifting funds to a younger person over age 18, who is not claimed as a dependent and not a full-time student, to be used to make a Traditional IRA contribution may make sense. The individual should get the credit and perhaps qualify for a tax deduction.
  - However, a Roth IRA contribution, though not deductible, will most likely be offset by the credit and may be a better choice in the long run.
- Although the credit does apply against the Alternative Minimum Tax (AMT), this should have little impact because it's unlikely that those qualifying will be subject to AMT.
- You can potentially gain a double benefit by making a deductible contribution to a Traditional IRA. The IRA deduction lowers your Adjusted Gross Income (AGI) for this provision. If you fall within or under the income limits, the tax deduction you receive for your contribution to a Traditional IRA may increase the amount of the credit.
- Investors over age 70½ can invest in a Roth IRA if they have earned income. With a low enough income, you might consider contributing money to a Roth IRA and receive the tax credit.



### Consult your tax advisor

These rules are complex. This fact sheet is offered to you as information only. Consult with your tax advisor before filing your tax return and claiming this tax credit.

### With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make more informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your Financial Advisor will be with you every step of the way to monitor your progress and adapt your plan as needed. Working together, we'll design and implement an investment plan that can help you live out your unique vision of retirement.