

The Saver's Credit Toolkit

Helping Employees Make the Most of Your Plan



Your 401(k) Plan Participants May Be Eligible for the Saver's Credit!

Dear HR Manager:

Would your employees want to know how to get a federal income tax credit of up to \$1,000? HERITAGE thinks they would and we'd like to help you get the word out.

Some of your employees may be eligible for the little-known Saver's Credit. Employees earning up to \$57,500 in tax year 2012 could be eligible to claim a tax credit of up to 50% of their plan contributions.

Estimates suggest that roughly 23 million tax filers could benefit from the Saver's Credit. Yet only about 4 million filers claimed it in 2005 (the latest year data are available). Research suggests that one barrier to claiming the credit is simply a lack of awareness that it exists. In fact, roughly 1.4 million eligible filers actually made a qualifying contribution to their retirement account, but failed to claim the credit. The other barrier is that the majority of income-eligible filers didn't make a retirement plan contribution.

We encourage you to let your employees know about the Saver's Credit. You don't even have to come up with the message – we've done it for you. The enclosed sample materials include intranet content, an e-mail message, materials for open enrollment packets, slides for group presentations, Frequently Asked Questions, and a mailer you can include in W-2 envelopes. We have also included a Fact Sheet that will help you and other decision-makers fully understand how your employees can benefit from the credit.

HERITAGE's effort to increase awareness of the Saver's Credit is part of our broader mission to improve retirement security for all. To that end, we want to work with you to promote the Saver's Credit and help your employees claim the credit they deserve.

Employers play a crucial role in helping their employees achieve financial security. Simplifying the saving process makes it easier for employees to save. We've simplified the process of getting the word out on the Saver's Credit, so you can easily highlight the Saver's Credit as one more benefit of participation.

We appreciate your help and so will your employees.

Saver's Credit Employer Toolkit

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Additional Resources

For Employees

IRS information on the Saver's Credit

<http://www.irs.gov/pub/irs-pdf/p590.pdf> (see page 75)

IRS Form 8880 to claim the Saver's Credit

<http://www.irs.gov/pub/irs-pdf/f8880.pdf>

The Retirement Security Project fact sheet on the Saver's Credit

http://www.retirementsecurityproject.org/pubs/File/SplitRefund_SaverCreditfinal.pdf

Benefits of Building Employee Awareness

The middle- and lower-income employees who participate in your 401(k) plan may be eligible to claim a federal income tax credit based on their contributions. The Saver's Credit is a fairly new provision of the federal tax code specifically aimed at rewarding middle- and lower-income employees for their retirement saving.

Eligible employees could receive a credit of up to \$1,000 against the federal income tax they owe. The credit also benefits you as a 401(k) plan sponsor. Learn how by reviewing this fact sheet.

What is the Saver's Credit

The Saver's Credit is an incentive for middle- and lower-income taxpayers to save in certain qualified retirement accounts (401(k)s, 403(b)s, IRAs, etc). The Saver's Credit helps households in the 15 percent or lower federal income tax bracket (the majority of workers in the US) by augmenting the traditional tax incentives for saving. Tax incentives have traditionally rewarded saving based on income. This system provides a much greater incentive to save for those in higher income brackets. The Saver's Credit addresses this upside-down incentive by offering an additional reward for saving to middle- and lower-income taxpayers.

In addition to helping households save more for retirement, the Saver's Credit also helps employers sponsoring 401(k) plans because it encourages more middle- and lower-income employees to save. This will usually improve the plan's score on the 401(k) nondiscrimination tests.

Who May Be Eligible for the Credit

To qualify for the Saver's Credit, employees:

- must be 18 or older;
- cannot be a full-time student;
- cannot be claimed as a dependent on another person's return; and
- must have contributed to a qualified retirement plan or an IRA this tax year.

Contributions up to \$2,000 count toward the credit. The actual amount of the credit depends on the filer's adjusted gross income as follows:

Credit Amount for TY 2012	Adjusted Gross Income Limits		
	Joint filers	Head of household	Single or married filing separately
50% of contribution	\$0-\$34,500	\$0-\$25,875	\$0-\$17,250
20% of contribution	\$34,501-\$37,500	\$25,876-\$28,125	\$17,251-\$18,750
10% of contribution	\$37,501-\$57,500	\$28,126-\$43,125	\$18,751-\$28,750



Saver's Credit Fact Sheet

Promoting the Saver's Credit is a great opportunity to communicate with your workers about one of your key employee benefits: your 401(k) plan. Your employees will appreciate learning from you about even more ways to save and, as mentioned above, you may find the Saver's Credit to be a good inducement for middle- and lower-income employees to participate in your 401(k) plan, which can help with non-discrimination test results.

Work with HERITAGE to Promote the Credit

Promoting the Saver's Credit is part of HERITAGE's broader mission to help improve retirement security for all. Building awareness of the Saver's Credit is one way to help bring much-needed resources to eligible populations. Working through employers helps us reach those who could benefit most.

Helping more workers achieve financial security is as simple as using the sample materials HERITAGE has provided to:

- post an article on your intranet site or send an e-mail about the Saver's Credit
- include information about the Saver's Credit in open enrollment materials or during new-hire orientation
- tuck a note about the Saver's Credit into W-2 mailers.

The Saver's Credit encourages and rewards saving, but too few people know about it. Our goal with this campaign is to build awareness and grow the number of eligible filers who claim the Saver's Credit. Together with employers like you, we can make that happen.

Sample Intranet Content

401(k) Plan Contributions Could Mean Additional Tax Savings!

Saver's Credit Rewards Retirement Saving

We encourage all of our employees to save for retirement through our 401(k) plan. It's why we have automatic enrollment and other features that make it easy to save.

The IRS encourages retirement saving, too. In addition to any tax deductions or exclusions you get for your contributions, you could also be eligible for a tax credit of up to \$1,000.

How it works

To be eligible for the Saver's Credit, you need to meet the following criteria:

- must be 18 or older;
- cannot be a full-time student;
- cannot be claimed as a dependent on another person's return;
- have adjusted gross income under \$57,500 if your filing status is married filing jointly, under \$43,125 if your filing status is head of household, or \$28,750 if your filing status is single, married filing separately, or qualifying widow(er); and
- must have contributed to a company retirement plan or an IRA this tax year.

What it's worth

Credit Amount for TY 2012*	Adjusted Gross Income Limits		
	Joint filers	Head of household	Single or married filing separately
50% of contribution	\$0-\$34,500	\$0-\$25,875	\$0-\$17,250
20% of contribution	\$34,501-\$37,500	\$25,876-\$28,125	\$17,251-\$18,750
10% of contribution	\$37,501-\$57,500	\$28,126-\$43,125	\$18,751-\$28,750

*The credit amount applies only to the first \$2,000 in contributions. Withdrawals from qualified plans or IRAs in the current and two previous tax years affect the amount of the Saver's Credit.



The Saver's Credit is a "nonrefundable" tax credit. This means it can only be used to reduce the amount of taxes you owe.

Some examples

Kelly meets the eligibility criteria. She files her taxes jointly on adjusted gross income of \$34,000. Kelly is eligible for a credit on 50% of her 401(k) contribution (see chart).

Kelly's 401(k) contribution for 2012: **\$2,000**

Amount IRS considers for the credit: **\$2,000**

Dollar value of 50% credit: **\$1,000**

The Saver's Credit gives Kelly **\$1,000** to apply toward any federal tax she owes when she files her 2012 return.

John meets the eligibility criteria. His filing status is single on adjusted gross income of \$22,000. John is eligible for a credit on 10% of his 401(k) contribution (see chart).

John's 401(k) contribution for 2012: **\$2,000**

Amount IRS considers for the credit: **\$2,000**

Dollar value of 10% credit: **\$200**

The Saver's Credit gives John **\$200** to apply toward any federal tax he owes when he files his 2012 return.

Sarah meets the eligibility criteria. She files her taxes as head of household on adjusted gross income of \$24,000. Sarah is eligible for a credit on 50% of her 401(k) contribution (see chart).

Sarah's 401(k) contribution for 2012: **\$1,000**

Amount IRS considers for the credit: **\$1,000**

Dollar value of 50% credit: **\$500**

The Saver's Credit gives Sarah **\$500** to apply toward any federal tax she owes when she files her 2012 return.

A more secure retirement is reason enough to save through our 401(k) plan. Now the Saver's Credit gives you even more reason to contribute.

Sample Email Message

To: All 401(k) eligible and participating employees
From: [\[HR leader or other senior officer\]](#)
Subject: Tax Tip: Saving in our 401(k) can cut your taxes!

Did you know that saving through our 401(k) plan might cut down your tax bill?

If you contribute to our 401(k) plan and have income below \$57,500, you could be eligible for the Saver's Credit. You can apply the credit to any taxes you owe. It could be worth as much as \$1,000!

You may be eligible for the Saver's Credit if:

- you contributed to your 401(k) (or an IRA or other qualified retirement account) during the 2012 tax year;
- you are at least 18 and not a full-time student;
- no one can claim you as a dependent on his or her tax return; and
- your adjusted gross income for 2012 is no more than \$57,500 for joint filers or \$28,750 for single filers.

If you use tax software to prepare your return, be sure to answer questions about the Saver's Credit. You can only claim it on Forms 1040, 1040A or 1040NR. For those filling out paper returns, you must complete Form 8880. And if you use a professional tax service, make sure to mention the Saver's Credit to your tax preparer.

[\[If you want to learn more about the Saver's Credit, read the attached Frequently Asked Questions\]](#)

The Saver's Credit is in addition to any other tax advantage that comes with your 401(k) participation. It's just one more benefit of saving through our 401(k) plan. Not enrolled? Sign up today.

Regards,



Sample Open Enrollment Letter

Your 401(k) Plan Contributions Could Mean Additional Tax Savings!

Saver's Credit Rewards Retirement Saving

Tax-preferred saving is one incentive to encourage you to save for retirement. Did you know the IRS provides another? It's called the Saver's Credit. In addition to any tax deductions or exclusions you get on your 401(k) contributions, you could be eligible for a tax credit of up to \$1,000.

How the Saver's Credit works

To be eligible for the Saver's Credit, you need to meet the following conditions:

- must be 18 or older and cannot be a full-time student;
- your adjusted gross income for 2012 is no more than \$57,500 for joint filers or \$28,500 for single filers;
- you cannot be claimed as a dependent on another person's return; and
- you must have contributed to a qualified retirement plan (401(k), 403(b) annuity, governmental 457, SIMPLE IRA, or certain other employer plans) or an IRA this tax year.

How much it's worth

Credit Amount for TY 2012*	Adjusted Gross Income Limits		
	Joint filers	Head of household	Single or married filing separately
50% of contribution	\$0-\$34,500	\$0-\$25,875	\$0-\$17,250
20% of contribution	\$34,501-\$37,500	\$25,876-\$28,125	\$17,251-\$18,750
10% of contribution	\$37,501-\$57,500	\$28,126-\$43,125	\$18,751-\$28,750

*The credit amount applies only to the first \$2,000 in contributions. Withdrawals from qualified plans or IRAs in the current and two previous tax years affect the amount of the Saver's Credit.

The Saver's Credit is a "nonrefundable" tax credit. This means it can only be used to reduce the amount of taxes you owe. If your tax liability is reduced to zero because of other refund credits, then you will not be entitled to this credit.

Sample Slides for Group Presentations

Kelly meets the eligibility criteria. She files her taxes jointly on adjusted gross income of \$34,000. Kelly is eligible for a credit on 20% of her 401(k) contribution (see chart).

Kelly's 401(k) contribution for 2012: **\$2,000**

Amount IRS considers for the credit: **\$2,000**

Dollar value of 20% credit: **\$1,000**

The Saver's Credit gives Kelly **\$1,000** to apply toward any federal tax she owes when she files her 2012 return.

John meets the eligibility criteria. His filing status is single on adjusted gross income of \$22,000. John is eligible for a credit on 10% of his 401(k) contribution (see chart).

John's 401(k) contribution for 2012: **\$2,000**

Amount IRS considers for the credit: **\$2,000**

Dollar value of 10% credit: **\$200**

The Saver's Credit gives John **\$200** to apply toward any federal tax he owes when he files his 2012 return.

Sarah meets the eligibility criteria. She files her taxes as head of household on adjusted gross income of \$24,000. Sarah is eligible for a credit on 50% of her 401(k) contribution (see chart).

Sarah's 401(k) contribution for 2012: **\$1,000**

Amount IRS considers for the credit: **\$1,000**

Dollar value of 50% credit: **\$500**

The Saver's Credit gives Sarah **\$500** to apply toward any federal tax she owes when she files her 2012 return.

401(k) plans are a great way to build retirement assets. Many of you are already in the plan and know the benefit of saving. If you aren't enrolled yet, you can sign up during open enrollment. Even if you think you're too young – it's never too early to start saving.



Employee FAQs

Questions and Answers about the Saver's Credit

We encourage all of our employees to save for retirement through our 401(k) plan. The IRS encourages retirement saving, too and you could be eligible for an income tax credit simply because you contribute to our 401(k) plan. The questions and answers below explain how the credit works and will help you determine whether or not you can claim it.

Q1. What is the Saver's Credit?

A1. The Saver's Credit is a credit against taxes you owe. You earn the credit by contributing to a qualified retirement plan (401(k), 403(b) annuity, governmental 457, SIMPLE IRA or certain other employer plans) or an IRA. The credit can be as much as \$1,000.

Q2. Can I claim the Saver's Credit?

A2. You can claim the credit if you meet certain rules and income limits. First, you have to be at least 18 years of age and not a full-time student. Second, no one else can claim you as a dependent. Third, you must have contributed to a qualified retirement plan or an IRA this tax year. You can claim the credit on up to \$2,000 of your contributions.

The credit amount depends on your adjusted gross income and filing status. It may be available to people who earn up to \$57,500 a year. Here's how it breaks down by income and filing status:

Credit Amount for TY 2012	Adjusted Gross Income Limits		
	Joint filers	Head of household	Single or married filing separately
50% of contribution	\$0-\$34,500	\$0-\$25,875	\$0-\$17,250
20% of contribution	\$34,501-\$37,500	\$25,876-\$28,125	\$17,251-\$18,750
10% of contribution	\$37,501-\$57,500	\$28,126-\$43,125	\$18,751-\$28,750

Q3. I don't owe any taxes. Do I get the Saver's Credit as a refund?

A3. No. The Saver's Credit is a "nonrefundable" tax credit. This means it can only be used to reduce the amount of federal taxes you owe. And, if your tax liability is reduced to zero because of other refund credits, then you will not be entitled to this credit.

Q4. My husband and I both contributed to 401(k) plans this year. Can we both claim the credit?

A4. Yes, if your total household income is under \$57,500 and neither of you is claimed as an exemption on your spouse's or anyone else's tax return, you both can claim the credit on up to \$2,000 each in qualified retirement saving contributions.

Q5. I took money out of my 401(k) last year. Can I still claim the Saver's Credit?

A5. Yes, but the amount you withdrew counts against how much of the credit you can claim. If you withdrew the money in the current tax year or the two years before that, the IRS reduces your credit based on the total amount.

Q6. I took out money from my Roth IRA. Does it count against the credit?

A6. Yes, Roth IRA withdrawals count against the credit amount you can claim. However, if you rolled the amount into another qualified retirement plan or another IRA, then it does not count against the credit.

Q7. Does a 401(k) loan count against the credit?

A7. No.

Q8. Does the Saver's Credit affect my ability to claim any deduction or exclusion that applies to my contribution?

A8. No. Claiming the Saver's Credit has no impact on your ability to deduct IRA contributions or exclude 401(k) plan contributions from your gross income if you are entitled to do so.

Q9. How do I claim the Saver's Credit?

A9. *If you use tax preparation software*, use Form 1040A, Form 1040, or Form 1040NR. The credit isn't available on Form 1040EZ. If the software has an interview process, be sure to answer questions about the Saver's Credit. The software may also refer to it as the Retirement Savings Contributions Credit or Credit for Qualified Retirement Savings Contributions.

If you prepare a paper return, fill out Form 8880: Credit for Qualified Retirement Savings Contributions. Complete the form to determine your credit rate and the amount. Then, copy that amount onto the line indicated on Form 1040A, 1040, or 1040NR.

If you use a paid tax preparer, tell them that you may be eligible for the Saver's Credit. They will most likely be aware of the credit, but you should make note of it, too.

Sample W-2 Mailer

Lower Your Taxes by Up to \$1,000! Claim the Saver's Tax Credit

You may be eligible if:



You meet the income limits



You're at least 18 and not a full-time student



No one can claim you as a dependent

To claim the credit:

Using software?

- Select Form 1040, 1040A or 1040NR
- Answer questions about the Saver's Credit

Filing manually?

- Complete Form 8880, "Credit for Qualified Retirement Savings Contributions"

Using a paid tax preparer?

- Ask about the Saver's Credit

Income limits and credit amount

Credit Amount for TY 2012*	Adjusted Gross Income Limits		
	Joint filers	Head of Household	Single or Married Filing Separately
50% of your contribution	\$0-\$34,500	\$0-\$25,875	\$0-\$17,250
20% of your contribution	\$34,501-\$37,500	\$25,876-\$28,125	\$17,251-\$18,750
10% of your contribution	\$37,501-\$57,500	\$28,126-\$43,125	\$18,751-\$28,750

*Available on contributions up to \$2,000

