

# Saver's credit tax basics

*Learn how this credit  
can reduce your tax bill*



## Tax savings for those who need it most

If you think you can't afford to save for retirement, the **retirement savings contributions credit** (saver's credit) may be able to help you afford to save today. The credit — up to \$1,000 (\$2,000 if filing jointly) — is for people with low to moderate income making contributions to their employer-sponsored retirement plan.

It's a deduction to your annual tax liability in the form of a tax credit, which is a percentage ranging from 10%-50% of your annual contribution. The maximum contribution amount that may qualify you for the credit is \$2,000 (\$4,000 if married filing jointly). The actual credit you receive is based on your **adjusted gross income (AGI)** and filing status.

This saver's credit works in addition to the other incentives you already receive for making contributions. You already pay no current federal income taxes on the money you contribute or its earnings until you withdraw money in retirement. Your contributions also reduce the overall amount of your income that's taxed.

### You're eligible for the saver's credit if you're:



- ✓ At least age 18.
- ✓ Not a full-time student.
- ✓ Not claimed as a dependent on someone else's tax return.

### You must also have an adjusted gross income (AGI) of:



- ✓ \$66,000 or less for those filing jointly.
- ✓ \$49,500 or less for those filing as head of household.
- ✓ \$33,000 or less for all other filers.

**Saver's credit can be applied  
to State of Michigan 401(k)  
and 457 Plan contributions.**

# Calculating your AGI to determine saver's credit

First, determine your **adjusted gross income (AGI)**, your total income minus all deductions. Once you've determined your AGI, you will be able to determine your saver's credit amount.

Cheyenne's AGI is \$26,000 after making a \$2,000 contribution to her State of Michigan 401(k) Plan. She falls under the *Filing as head of household* category. According to the IRS, this means Cheyenne qualifies for a saver's credit equal to 50% of her total retirement contribution.



## Cheyenne

Administrative assistant and single mother of two.

Cheyenne's finances				
Income		Adjustments		AGI
Wages	\$29,800	401(k) Contributions	\$2,000	
Unemployment	\$1,800			
Interest	\$5			
<b>Total</b>	<b>\$31,605</b>		<b>- \$2,000</b>	<b>= \$29,605</b>
<b>Cheyenne's saver's credit: (\$2,000 x 0.50) = \$1,000</b>				



## Val and Andre

Val is a teacher's aide and Andre is a part-time call center worker.

Val and Andre are married and fall under the *Filing jointly* category with an AGI of \$52,000. They each contribute \$1,500 to their State of Michigan 457 Plan for a total contribution of \$3,000. According to the IRS, they qualify for a saver's credit equal to 10% of their total retirement contributions.

Val & Andre's finances				
Income		Adjustments		AGI
Val's wages	\$39,374	Val's 457	\$1,500	
Andre's wages (Primary job)	\$24,947	Andre's 457	\$1,500	
(Secondary job)	\$5,200	Student loan interest	\$2,425	
Interest	\$75	Educator expenses	\$300	
<b>Total</b>	<b>\$69,596</b>		<b>- \$5,725</b>	<b>= \$63,871</b>
<b>Val &amp; Andre's saver's credit: (\$3,000 x 0.10) = \$300</b>				

## The saver's credit

- Does not apply to employer contributions.
- May be reduced by any taxable distributions from any plans eligible for the saver's credit.
- Is nonrefundable and can't be more than your total tax liability.
- Can be calculated and attached to your **Form 1040, Form 1040-SR, or Form 1040-NR** tax return using **Form 8880**.
- Cannot include rollover contributions made to a retirement account.

1. IRS, *Retirement Savings Contributions Credit (Saver's Credit)*, Nov. 10, 2021.

2. IRS, *About Form 8880, Credit for Qualified Retirement Savings Contributions*, Feb. 22, 2021.

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