

NEW CREDIT FOR CONTRIBUTIONS TO RETIREMENT PLANS AND IRAS (SAVER'S CREDIT)

Beginning in 2002, if you make eligible contributions (defined later) to an employer-sponsored retirement plan or to an individual retirement arrangement (IRA), you may be able to take a tax credit. The amount of the saver's credit you can get is based on the contributions you make and your credit rate. Your credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. The lower your income, the higher the credit rate. Your credit rate also depends on your filing status. See Table 3-1 to determine your credit rate.

The maximum contribution taken into account is \$2,000 per taxpayer. On a joint return, up to \$2,000 is taken into account for each spouse.

TABLE 3-1. SAVER'S CREDIT RATE

Note: The credit is limited to \$1,000 per person per year.

| IF your filing status is ... | AND your adjusted gross income is ... | THEN your credit rate is... |
|---|--|--|
| Married filing jointly | Not over \$30,000 | 50% |
| | Over \$30,000 but not over \$32,500 | 20% |
| | Over \$32,500 but not over \$50,000 | 10% |
| | Over \$50,000 | 0% (You do not qualify for the credit) |
| Head of household | Not over \$22,500 | 50% |
| | Over \$22,500 but not over \$24,375 | 20% |
| | Over \$24,375 but not over \$37,500 | 10% |
| | Over \$37,500 | 0% (You do not qualify for the credit) |
| Single, Qualifying widow(er), or Married filing separately | Not over \$15,000 | 50% |
| | Over \$15,000 but not over \$16,250 | 20% |
| | Over \$16,250 but not over \$25,000 | 10% |
| | Over \$25,000 | 0% (You do not qualify for the credit) |

WHO CANNOT CLAIM THE CREDIT. You cannot claim the credit if any of the following apply.

1. You are under age 18.
2. You are a full-time student (explained later).
3. Someone else, such as your parent(s), claims an exemption for you on their tax return.
4. Your adjusted gross income (defined later) is more than:
 - a. \$50,000 if your filing status is married filing jointly,
 - b. \$37,500 if your filing status is head of household, or
 - c. \$25,000 if your filing status is either single, married filing separately, or qualifying widow(er).

Full-Time Student. You are a full-time student if, during some part of each of 5 calendar months (not necessarily consecutive) during the calendar year, you are either:

- A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or
- A student taking a full-time, on-farm training course given by a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance or a state, county, or local government.

(You are a full-time student if you are enrolled for the number of hours or courses the school considers to be full-time.)

HOW TO DETERMINE YOUR ADJUSTED GROSS INCOME AND ELIGIBLE CONTRIBUTIONS.

Adjusted Gross Income. This is generally the amount on the line labeled *adjusted gross income* at the bottom of page 1 of your 2002 Form 1040 or Form 1040A. However, you must add to that amount any exclusion or deduction claimed for the year for:

- Foreign earned income,
- Foreign housing costs,
- Income for residents of American Samoa, and
- Income from Puerto Rico.

Eligible Contributions. These include contributions to a traditional or Roth IRA and salary reduction contributions to a 401(k) plan (including a SIMPLE 401(k)), a section 403(b) annuity, an eligible deferred compensation plan of a state or local government (a governmental 457 plan), a SIMPLE IRA plan, or a salary reduction SEP. They also include voluntary after-tax employee contributions to a tax-qualified retirement plan or section 403(b) annuity. For purposes of the credit, an employee contribution will be voluntary as long as it is not required as a condition of employment.

Contributions Reduced. Your eligible contributions are reduced by the sum of:

- Any taxable distribution from a qualified retirement plan or from an eligible deferred compensation plan that you receive during the testing period (defined later), and
- Any distribution from a Roth IRA or a Roth account that you receive during the testing period and that is not a qualified rollover contribution to a Roth IRA or a rollover to a Roth account.

A distribution from a Roth IRA that is not rolled over reduces your eligible contributions, even if the distribution is not taxable.

A distribution that is a return of a contribution to an IRA (including a Roth IRA) made during the year for which you claim the credit does not reduce your eligible contributions if:

1. The distribution is made before the due date (including extensions) of your tax return for that year,
2. You do not take a deduction for the contribution, and
3. The distribution includes any income attributable to the contribution.

Distributions Received by Spouse. Any distributions your spouse receives are treated as received by you if you file a joint return with your spouse both for the year of the distribution and for the year for which you claim the credit.

Testing Period. The testing period consists of the year for which you claim the credit, the period after the end of that year and before the due date (including extensions) for filing your return for that year, and the 2 tax years before that year.

Maximum Eligible Contributions. After your contributions are reduced, the maximum annual contribution on which you can base the credit is \$2,000 per person.

Maximum Credit. The amount of the credit in any year cannot be more than the amount of tax that you would otherwise pay (not taking into account any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope credit, then you will not be entitled to this credit.

Termination of Credit. This credit is not available for tax years beginning after 2006.