True Vine Investments

Get Paid to Save for Retirement with the Retirement Savings Contributions Credit

[Note: This Letter is an educational publication designed to provide a general background for understanding the Retirement Savings Contributions Credit. It is not a substitute for professional tax advice. Readers trying to claim the credit are encouraged to consult with a qualified financial advisor or tax professional. This Letter references parameters for 2016 and 2017. If you are reading this after 2017, then new parameters may apply. You can check the True Vine Letter IRA archives for more recent updates or visit the Internal Revenue Services (IRS) website at irs.gov. IRS Publication 590-A (Contributions to Individual Retirement Arrangements) covers the credit and is usually updated on an annual basis.]

The Retirement Savings Contributions Credit **(RSCC)** is a tax credit available for some people who contribute to an IRA or employer-sponsored retirement plan. It is a *nonrefundable* tax credit, which means you will not receive any amount of the credit over and above the amount you owe in taxes. For example, if you are eligible for a $1,000 RSCC, but you only owe $500 in taxes, then you will only receive a $500 credit. You will not receive a refund check for the additional $500 worth of credit. Most readers will not be eligible for the credit, but it is certainly worth knowing about. Some may still have young adult children or parents that are eligible.

Eligibility

To be eligible for the credit, an individual must be 18 years of age or older (born before January 2, 1999), not a full-time student, not claimed as a dependent on another person's tax return, and have an adjusted gross income (AGI) that is not more than:

- $30,750 when filing status is Single, Married Filing Separately, or Qualifying Widow (er)
- $46,125 when filing status is Head of Household
- $61,500 when filing status is Married Filing Jointly

If you want to know what your AGI was for tax year 2015, it is the number on line 37 of your Form 1040.

Determining the Credit Amount

The RSCC can be as little as 10% of your contribution or as much as 50% of your contribution up to a maximum of $1,000 for an individual or $2,000 for a married couple filing jointly (where both spouses made retirement plan contributions). Here are the AGI thresholds for 2016 and 2017 that determine what level of credit applies:

2016 & 2017 Retirement Savings Contributions Credit

Credit Rate	Married Filing Jointly	Head of Household	Single, Married Filing Separately, or Qualifying Widow(er)
50% of contribution	<= $37,000	<= $27,750	<= $18,500
20% of contribution	$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000
10% of contribution	$40,001 - $61,500	$30,001 - $46,125	$20,001 - $31,000

Your contribution amount will also be reduced by any IRA or employer-sponsored retirement plan *distributions* taken before the tax filing deadline of the tax year and also any taken during the prior two tax years. For example, you contribution amount for the 2016 tax year would be determined by taking your contributions for tax year 2016 and subtracting all retirement plan distributions taken between January 1, 2014 and April 17, 2017. The maximum eligible contribution amount that can be used to apply the credit is $2,000 per person.

An Example of a Married Couple Claiming the RSCC

Let us bring this all together now by going through an example of how a married couple would qualify for this credit. John is 27 and Mary is 26. They are both out of college and have been married for 2 years. In January of 2016 they started their own business and John also opened a Roth IRA. It is now February 2017 and they are preparing their 2016 tax return. After taking their net business income in 2016 of

$42,000 and reducing it by their self-employed health insurance deduction, deductible part of their self-employment tax, and interest paid on Mary's student loan, their AGI was $36,000. John contributed $1,000 to his Roth IRA during 2016 and the entire amount is eligible for determining the RSCC. Since John and Mary filed jointly, he is able to claim a credit of 50% of this amount, which comes out to $500. By qualifying for and claiming this credit, John was essentially able to have the U.S. government match 50% of his retirement plan contribution.

Final Thoughts

The RSCC can be a valuable credit for lower income individuals or married couples. Often times it can work for a young married couple without children (not eligible for child credits) or a retired couple where one or both spouses is working part time and still making IRA contributions. It is definitely worth understanding as it provides a nice incentive for contributing to a retirement plan for those who qualify.

If you have a question you can leave it in the comments below and I will be sure to answer it.

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