

## For Saver's Credit 2007: The Time Is Now

Communication is key for participants to take advantage of this important benefit.

By Kara Schappa

**T**he Saver's Credit was made permanent in the Pension Protection Act of 2006, and it is important that plan sponsors let their participants know about this significant benefit.

The tax credit ranges from 10 to 50 percent of each \$1.00 contributed, up to the first \$2,000 put in the 401(k). If a participant and their spouse both contribute to a 401(k) plan, they may both be eligible to receive a credit. The amount of the tax credit depends on the amount of the adjusted gross income. Please refer to the chart below.

The following is a model communication that you can adapt for your company's 401(k) plan participants. Please customize this notice especially in regards to the reference to a company contribution in the last paragraph.

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### Model Communication

#### Tax Credit for Low- and Moderate-Income 401(k) Savers

Dear Plan Participant:

Because you have elected to save for your retirement in our 401(k) plan, you may be eligible to claim a special tax credit of up to \$1,000. In order to qualify for the Saver's Credit you must be:

- 18 years of age or older
- not a full-time student
- not claimed as a dependent on someone else's return

In addition, you must meet one of the following financial criteria:

- File your taxes singly with an income of \$26,000 or less.
- File your taxes as head of household and have an income of \$39,000 or less.
- File your taxes jointly with an income of \$52,000 or less.

The tax credit ranges from 10 to 50 percent of each \$1.00 you contribute, up to the first \$2,000 you put in your 401(k). That's between \$200 and \$1,000 directly off the income taxes you pay.

If you and your spouse both contribute to a 401(k) plan, you may both be eligible to receive a credit. The amount of your tax credit depends on the amount of your adjusted gross income. The income limits and applicable credit rate allowance are given in the table below.

The tax credit is in addition to other favorable tax treatments for your 401(k) participation, such as the deferral of income tax on your contributions. Please note that this credit applies only as a reduction to your income tax liability, not as cash in hand via a refund.

The government established this program because it wants to reward low- and moderate-income workers who save for retirement. Not only do you receive up to \$1,000 off of your federal income taxes you owe, **(please customize if appropriate)** you also get an employer matching contribution of 50 percent of the money you put into your plan. In other words, if you save \$1.00, the government gives you 50 cents back, and your employer puts 50 cents into your account. Now that's free money.

### 2007 Tax Credit for Different Income Levels

Credit	Adjusted Gross Income		
	Single Filers	Head of Household	Joint Filers
50% of Contribution	0-\$15,500	0-\$23,250	0 - \$31,000
20% of Contribution	\$15,500-\$17,000	\$23,250-\$25,500	\$31,000 - \$34,000
10% of Contribution	\$17,000-\$26,000	\$25,500-\$39,000	\$34,000 - \$52,000
Credit not available	More than \$26,000	More than \$39,000	more than \$52,000