

The Saver's Credit

A Plain-English Guide for Individuals Saving for Retirement

Compliments of Lenny G. Letcher, EA, RFC

www.lennyletcher.com

The big idea: Eligible taxpayers may receive a federal tax credit for qualified retirement contributions. the credit is nonrefundable and is based on an applicable percentage of up to the first \$2,000 of qualified contributions per eligible individual.

1. Who Can Qualify?

An eligible individual must be at least age 18 at year-end. A person who can be claimed as another taxpayer's dependent and a full-time student generally does not qualify.

2. How the Credit Works

The credit equals 50%, 20%, or 10% of up to the first \$2,000 of qualified retirement savings contributions, depending on modified adjusted gross income (MAGI). On a joint return, each eligible spouse can potentially qualify based on that spouse's contributions.

Example: Eric contributes \$3,000 to a 401(k), but only \$2,000 is used for the credit calculation. Heather contributes \$500 to an IRA. If their applicable credit percentage is 20%, their \$2,500 of qualifying contributions produces a \$500 Saver's Credit.

3. Contributions That Can Count

- 401(k) elective contributions
- 403(b) annuity contributions
- Eligible governmental 457 plan contributions
- Tax-exempt employee-funded pension plan contributions
- SIMPLE IRA or salary-reduction SEP contributions
- Traditional IRA or Roth IRA contributions
- Certain voluntary after-tax employee contributions to a qualified retirement plan

Does not belong on this list: An HSA contribution is not one of the qualified retirement-plan contributions eligible for the Saver's Credit.

4. How the Employee Claims the Credit

The employee claims the Saver's Credit on Form 8880, Credit for Qualified Retirement Savings Contributions. For 2025, the credit from Form 8880, line 12, is carried to Schedule 3 (Form 1040), line 4, and then included with the other nonrefundable credits on the individual income tax return.

5. 2025 Income Limits and Credit Percentage

The income limits are relatively modest. The 2025 Form 8880 table below shows the percentage used after determining the taxpayer's modified adjusted gross income (MAGI). A taxpayer above the top limit for the applicable filing status receives no Saver's Credit.

MAGI over	MAGI not over	Married filing jointly	Head of household	Single / MFS / qualifying surviving spouse
\$0	\$23,750	50%	50%	50%
\$23,750	\$25,500	50%	50%	20%
\$25,500	\$35,625	50%	50%	10%
\$35,625	\$38,250	50%	20%	10%
\$38,250	\$39,500	50%	10%	10%
\$39,500	\$47,500	50%	10%	0%
\$47,500	\$51,000	20%	10%	0%
\$51,000	\$59,250	10%	10%	0%
\$59,250	\$79,000	10%	0%	0%
\$79,000	No limit	0%	0%	0%

2025 maximum MAGI for any credit: \$79,000 married filing jointly; \$59,250 head of household; and \$39,500 for single, married filing separately, or qualifying surviving spouse. These thresholds are tax-year specific and should be updated in future editions of this guide.

6. MAGI Matters

The credit percentage is income-sensitive. Modified adjusted gross income (MAGI) is determined by adding back certain foreign and possession income exclusions under Code Sections 911, 931 and 933. Use the income limits for the tax year being prepared.

7. Watch the Testing Period

This is the rule families can easily miss. Certain retirement-plan distributions can reduce the contributions eligible for the credit. The testing period includes the tax year for which the credit is claimed, the two preceding tax years, and the period after year-end through the return's due date, including extensions.

Lenny's Take: Don't look only at what the taxpayer contributed this year. Before claiming the Saver's Credit, look backward for retirement distributions and forward through the filing deadline. A distribution at the wrong time can reduce - or even eliminate - the credit.

7. Distributions That Generally Do Not Reduce the Credit

- Certain plan loans treated as distributions
- Certain corrective distributions of excess 401(k) contributions, aggregate contributions or excess deferrals
- Dividends paid on employer securities under Code Sec. 404(k)
- Certain IRA contributions returned by the return due date
- Traditional IRA-to-Roth IRA rollovers covered by the cited rule

8. Important Change After 2026

SECURE 2.0 replaces the current Saver's Credit after 2026 with a federal matching contribution deposited into the taxpayer's IRA or retirement plan. The new rules provide a 50% match on up to \$2,000 of contributions per individual, subject to income phaseouts and other eligibility rules. Because this is a major change beginning in 2027, taxpayers should confirm the current IRS rules before relying on the match.

Planning reminder: Because this change is effective after December 31, 2026, do not assume the current credit rules continue unchanged into 2027.

9. What to Bring Your Tax Professional

- Year-end Forms W-2 showing retirement deferrals
- IRA contribution records
- Records of retirement distributions for the current year and prior two years
- Forms 1099-R
- Information about student or dependent status
- Any foreign or possession income exclusions that affect MAGI

A Final Word

This guide is for general education. The 2025 income table is based on IRS Form 8880 for tax year 2025. Retirement-plan and tax-credit rules depend on the facts and can change. Before claiming a credit or making a plan decision, review the requirements for the tax year involved and your specific circumstances with your tax professional.

Compliments of Lenny G. Letcher, EA, RFC | www.lennyletcher.com