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Financial Solutions
Planning & Investments

Qualified Plan Insights

We hope this newsletter finds you in good spirits as we are well into the second half of 2019. Today's topic concerns an item in the tax code called the "Credit for Qualified Retirement Savings Contributions" aka the "Saver's Tax Credit". This credit was designed to encourage retirement savings for those whose earnings are below certain limits.

Before we discuss some of the aspects of the Saver's Credit, we would like to highlight that credits are almost always more desirable than deductions. Credits decrease the amount of tax owed dollar for dollar, while deductions reduce the overall amount of taxable income. Meaning, all else equal, a $1,000 credit will reduce the ending tax bill by $1,000. A $1,000 deduction lowers the income subject to taxation (i.e. $50,000 is reduced to $49,000).

The present form of the Savers Credit was passed with the Tax Cuts and Jobs Act (TCJA) of 2017 and is set to expire after 2025. This non-refundable tax credit is given to individuals who contribute to one or more qualified accounts. Some of the types of accounts include Traditional or ROTH IRA's, SEP IRA's, SIMPLE IRA's, 401(k)'s, 403(b)'s, governmental 457(b), Thrift Savings Plan (TSP), and more.

To apply for the tax credit the individual must be at least 18 years old as of January 1st. They cannot be claimed as a dependent on someone else's tax return, nor can they be a FULL-TIME student. Finally, all salary deferrals must be contributed to an employer's retirement plan by December 31st or personal contributions to an IRA by April 15th of the following year.

Once eligibility criteria have been met, the calculation for the tax credit then uses the tax filing status of the individual and their Adjusted Gross Income (AGI) as reported on the 1040 or 1040A tax return. These classifications are broken down into 4 categories. For each classification the AGI Limits are as follows: Single or Married Filed Separately filers must have an AGI less than $32,000. Head of household filers must have an AGI less than $48,000. Married Filed Jointly filers must have an AGI less than $64,000.

The maximum dollar value of the tax credit could be as much as $1,000 ($2,000 if married filing jointly). The amount of the tax credit is based on a sliding scale and is a percentage of the amount of salary deferrals or IRA contributions up to $2,000 of contributions. The tax credit starts at 50% of the contribution, then 20%, then 10% until it is phased out to 0%.

As an example, "John" is 32 years old and is classified as Married Filed Jointly. His AGI is $40,000 per year and he contributed $2,000 pre-tax to his employers 401(k) plan. His credit equals $400, which is 20% of the $2,000 he contributed. He can use this credit to lower his taxes owed by $400. If John owed less than $400, the credit would lower his taxes owed to $0, but would not result in a refund.

The tax credit is not the only benefit to savers. Other benefits include: pre-tax contributions are tax deductible and lower overall taxable income; the saver has now invested these contributions for their retirement over the long term; if their plan allows for employer, contributions the employee may also benefit from things such as an employer match or Profit Share as a result of their employee deferrals.

Please understand that we are not tax professionals and can't offer specific advice. We recommend reaching out to a qualified tax professional for specific advice on this topic as it relates to individual situations.

As always, we are here to help and educate so please feel free to reach out to anyone at Financial Solutions Planning and Investments (FSPI) regarding this article or any other personal financial planning issues you may be facing.

Source: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit

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Did you know?????

Your retirement account's named beneficiaries can be amended at any time. While there are some rules revolving around naming a non-spouse as your primary beneficiary, you can name people, trusts, or even charities as either your primary or contingent beneficiary. You can further indicate what percentage of the account will pass to each heir. For example, an unmarried father could indicate that his son receives 25% of the account and his daughter receive 75% of the account. Take a moment to verify your beneficiaries and update them if needed!!

Index	7/31/2019	Change	% Change	% YTD
Dow Jones Industrial Average	26,864.27	-333.75	-1.23%	15.16%
S&P 500	2,980.38	-32.80	-1.09%	18.89%
NASDAQ Composite	8,175.42	-98.19	-1.19%	23.21%
Russell 2000	1,574.61	-10.99	-0.69%	16.76%
MSCI EAFE	1,897.12	-2.85	-0.15%	10.31%
MSCI Emerging Market	1,037.01	-6.14	-0.59%	7.39%
CBOE Market Volatility	16.12	2.18	15.64%	-36.59%
U.S. Treasury 10-Year (YTM %)	2.015	-4.4 bps	-2.12%	-67.0 bps
Barclays U.S. Aggregate Bond	na	na	0.15%	6.35%
WTI Crude Oil ($/bbl.)	58.58	0.53	0.91%	29.00%
Gold ($/oz.)	1,413.90	-16.99	-1.19%	10.25%

Source: Bloomberg. *All performance percentages are simple appreciation, which excludes the effect of dividends.*
Barclays U.S. Aggregate displays as actual YTD%, as opposed to 12-month, year-over-year performance.

For Index definitions, please visit www.bloomberg.com

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