



Updated December 15, 2023

The Retirement Savings Contribution Credit and the Saver’s Match

The Retirement Savings Contribution Credit (Internal Revenue Code [I.R.C.] §25B)—commonly referred to as the Saver’s Credit—is a tax expenditure meant to encourage low- and moderate-income taxpayers to save for retirement. The SECURE 2.0 Act of 2022 (“SECURE 2.0”; Division T of P.L. 117-328) included a provision that replaces the Saver’s Credit with a Saver’s Match beginning in 2027. This In Focus describes these two subsidies for saving and their effects (actual or potential) on saving.

The Saver’s Credit

Eligible taxpayers can claim a nonrefundable tax credit for contributions to certain retirement accounts. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) created the Saver’s Credit. The credit took effect in 2002 and was scheduled to expire after 2006, but the Pension Protection Act of 2006 (P.L. 109-290) made it permanent.

To claim the tax credit, the saver must (1) be at least 18 years old; (2) not be claimed as a dependent on someone else’s tax return; (3) not be a full-time student; and (4) fall under specified income thresholds.

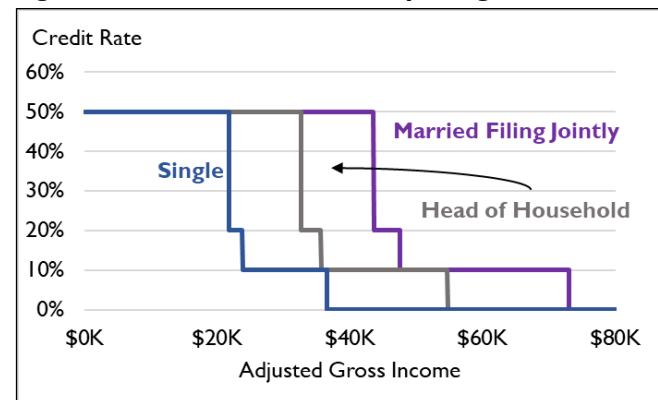
The maximum credit amount is \$1,000 per person (up to \$2,000 per married couple filing jointly). Taxpayers calculate the credit by multiplying their qualified retirement account contributions (up to a limit) by a credit rate (which declines as income rises). The credit is nonrefundable, meaning the credit cannot exceed income tax liability. Since low-income taxpayers typically owe little to no income tax, nonrefundable credits like the Saver’s Credit may have little to no effect on their tax liability.

Retirement account contributions of up to \$2,000 per person qualify for the credit. Eligible contributions include those to traditional and Roth Individual Retirement Accounts (IRAs) and defined contribution (DC) retirement plans, such as 401(k) plans. From 2018 through 2025, P.L. 115-97 (commonly known as the “Tax Cuts and Jobs Act”) lets taxpayers claim the Saver’s Credit for contributions to their own Achieving a Better Life Experience (ABLE) accounts. ABLE accounts are tax-favored savings vehicles for people with disabilities.

The credit rate depends on a taxpayer’s adjusted gross income (AGI) and filing status. The AGI thresholds create “cliffs” at which the credit rate falls discretely, from 50% to 20%; 20% to 10%; and 10% to 0% (Figure 1). These thresholds are adjusted annually for changes to the cost of living.

In 2023, the maximum credit rate of 50% is available to taxpayers with AGIs of \$43,500 or less for married taxpayers filing joint returns, \$32,625 or less for head of household (HoH) filers, and \$20,750 or less for single filers and other filers. For example, a married taxpayer earning \$43,500 who files jointly and makes \$2,000 in eligible contributions would be eligible for a \$1,000 credit. If the couple’s income increased by one dollar, their credit would fall to \$400 ($\$2,000 \times 20\%$). No credit is available for married taxpayers filing joint returns once AGI exceeds \$73,000 since the credit rate is zero.

Figure 1. Rate of Saver’s Credit by Filing Status, 2023



Source: CRS and I.R.C. §25B.

Notes: The credit rate applies to contributions, not to AGI.

While the maximum credit is \$1,000 per individual (\$2,000 per married couple), most taxpayers receive less. Many low-income households lack resources to contribute to their retirement accounts to qualify for the maximum credit. Since the credit is nonrefundable, many lack sufficient tax liability to receive the full credit.

The Joint Committee on Taxation (JCT) estimated the Saver’s Credit will cost the federal government \$1.5 billion in foregone revenue in FY2024.

Saver’s Credit Statistics

Few taxpayers claim the Saver’s Credit, and the average credit is small. Table 1 shows that in 2021, the Internal Revenue Service (IRS) estimates that 5.7% of taxpayers claimed the credit, and the average credit was \$191.

A smaller share of low-income earners claimed the credit than those with moderate incomes. Of taxpayers with AGI below \$10,000, 0.04% claimed the credit, as few such taxpayers have income tax liabilities. Of those with AGIs from \$25,000 to under \$50,000, 15.1% claimed the credit.

Table 1. Share of Tax Returns Claiming Saver's Credit and Average Credit Amount, 2021

AGI	Share Claiming	Average Credit
\$1-<\$10K	~0.0% ^a	\$183
\$10K-< \$25K	7.0%	\$176
\$25K-<\$50K	15.1%	\$200
\$50K-<\$75K	6.5%	\$176
\$75K+	0.0%	\$0
All Taxpayers	5.7%	\$191

Source: CRS and IRS Statistics of Income.

a. The share claiming the credit is positive but rounds to 0.0%.

Why Do Few Claim the Credit?

Empirical studies (all of which are at least a decade old) generally found that the Saver's Credit does not encourage low-income taxpayers to save more for retirement. There are several possible reasons low-income people struggle to save. In a recent Federal Reserve study, 32% of households said they could not cover a sudden expense of less than \$500 in full using cash, suggesting many lack the financial capacity to save. Further, 87% of the lowest-earning fifth of households did not hold retirement accounts in 2022.

Additionally, since the Saver's Credit is nonrefundable, it offers little (or no) benefit to low-income households with little (or no) income tax liability. Lack of awareness might also limit the credit's efficacy. In 2021, 48% of workers at for-profit companies had heard of the credit. Taxpayers could not claim the credit using Form 1040EZ—meant for lower-income filers with simple returns before the IRS discontinued it as of 2018—which may have made lack of awareness particularly significant.

Even if the Saver's Credit were to encourage retirement savings, it may not raise overall savings. Early withdrawal penalties for certain types of accounts are a barrier to retirement saving. If the Saver's Credit helps overcome this barrier, some taxpayers may shift other forms of savings into retirement accounts, without increasing total savings.

One 2013 study found some taxpayers adjusted their income to points just below cliffs to maximize this credit. This suggests that rather than encouraging saving, the credit may discourage taxpayers from earning (or reporting) additional income to avoid losing the credit.

Change to a Saver's Match

SECURE 2.0 created a federal Saver's Match to replace the Saver's Credit in 2027 (I.R.C. §6433). Rather than receiving a credit, eligible individuals will have matches contributed to their retirement accounts. Relative to the Saver's Credit, the Saver's Match will have a lower maximum effective rate, but it may reach more taxpayers.

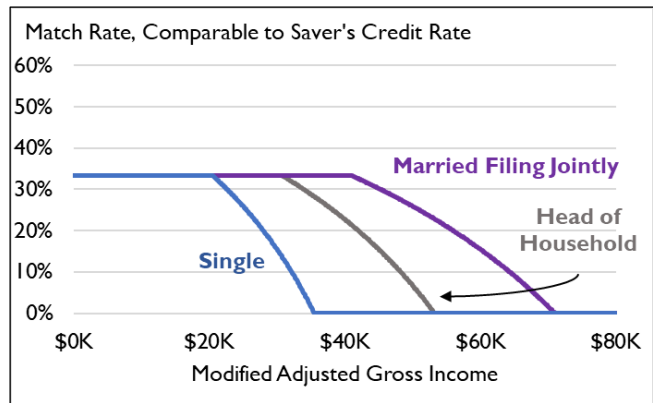
Savers with modified AGIs below \$20,500 (\$41,000 for married filing jointly) will qualify for a 50% federal match on up to \$2,000 in retirement savings—that is, a maximum match of \$1,000. This income threshold will be adjusted for the cost of living for years after 2027. Those who earn up to \$15,000 more than this threshold (\$30,000 more for married couples filing jointly) will qualify for a reduced match. The match's structure eliminates the sudden cliffs at which the

benefit rate falls suddenly. This change should minimize the degree to which the tax benefit encourages taxpayers to report lower incomes.

Unlike for the Saver's Credit, these thresholds will be calculated using a modified AGI that does not exclude the value of contributions to qualified retirement accounts. The JCT estimated that the Saver's Match will lower revenues by \$9.3 billion from FY2023 to 2032.

Despite both having maximum benefit rates of 50%, the rates apply to different bases. Unlike the Saver's Match, the Saver's Credit lets taxpayers contribute more cash out of pocket, and therefore qualify for a larger credit. For example, if an eligible taxpayer was willing to reduce consumption by \$600 to save, he or she could contribute \$1,200 and offset the cost with a \$600 Saver's Credit. In contrast, a similar taxpayer who received the Saver's Match would contribute \$600 and receive a \$300 match, for total savings of \$900. Whereas the Saver's Credit provides up to 50% of total after-tax-benefit savings, the Saver's Match will provide up to 33% (Figure 2).

Figure 2. Adjusted Saver's Match Rates, 2027



Source: CRS and I.R.C. §6433.

The Saver's Match does not address other barriers that may prevent low-income people from saving. These include access to employer-provided retirement accounts and a lack of resources to save.

Despite these considerations, Saver's Match may create an incentive to save for some people that the Saver's Credit does not reach. Those who contribute up to the Saver's Credit contribution cap of \$2,000 (meaning they save less out of pocket, after accounting for the credit they receive) will continue receiving the Saver's Match on additional savings until their out-of-pocket savings reach the cap of \$2,000. The Saver's Match will also not be limited to a saver's income tax liability, removing a barrier for the lowest-income savers. SECURE 2.0 also encouraged the Treasury Department to promote the Saver's Match, which may improve its salience with taxpayers.

Molly F. Sherlock wrote a prior version of this *In Focus*.

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