

Plan

Taking Advantage of Retirement Plan Tax Breaks

When you have a mortgage, you get a break. You get to live in your house while you finish paying for it! If you participate in your employer's tax-deferred retirement savings plan, you also get a break — a break from paying the income taxes that would otherwise be due on the money in your account.

Less Withholding

The money you contribute to your account is tax-deferred — no federal (or possibly state) income taxes are withheld when you or your employer contributes to your plan account. The tax break also applies to the income your account's investments earn, such as dividends, interest, and capital gains. You won't pay income taxes on contributions or earnings until you withdraw money from your plan account.

"The more you choose to contribute to your account, the more you'll benefit from your tax breaks."

More Potential Growth

What difference does a tax break make if you have to pay taxes in the end? The advantage comes from reinvestment. All of your account earnings are reinvested instead of being taxed. So you have more

money invested than you would if taxes were being taken out. The beauty of this is that you are earning money on the money that might otherwise have gone to taxes.

More Take-home Pay

Your retirement plan offers another tax break: a cut in the cost of your plan contributions. By deferring some of your salary to the plan, you reduce your taxable income. Your taxes and your tax withholding are also reduced. So, your out-of-pocket "cost" in take-home pay is less than the amount you contribute.

Here's an example. Assume your pay is \$1,000 and your employer withholds 15% (\$150) for federal income taxes. You take home a check for \$850. But, if you contribute \$50 of pay to your tax-deferred retirement account, your taxable pay drops to \$950 and the 15% tax withholding drops to \$143. You take home \$807, you pay less income tax, and the "cost" of your \$50 contribution is only \$43.



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Please note this example does not take into account any state income taxes or any Social Security or Medicare taxes. Amounts deferred into a retirement plan account generally remain subject to Social Security and Medicare tax withholdings.

The "Saver's Credit"

If you're eligible, you may get a bonus tax break from the IRS when you file your tax return. The saver's credit is 50%, 20%,

or 10% of retirement plan and IRA contributions up to a maximum of \$2,000. (See table.) For example, in 2009, a married participant filing jointly with adjusted gross income of between \$36,000 and \$55,500 qualifies for a 10% credit (\$200 on a \$2,000 maximum contribution).

The more you choose to contribute to your account, the more you'll benefit from your tax breaks.

"Saver's Credit" Amounts for 2009

Taxpayer must be at least age 18, not another person's dependent for tax purposes, and not a full-time student.

With Adjusted Gross Income (AGI)

Rate	Married Joint*	Head of Household	Single
50% of Contribution up to \$2,000	Up to \$33,000	Up to \$24,700	Up to \$16,500
20% of Contribution up to \$2,000	\$33,001-\$36,000	\$24,751-\$27,000	\$16,501-\$18,000
10% of Contribution up to \$2,000	\$36,001-\$55,500	\$27,001-\$41,625	\$18,001-\$27,750

*Each spouse may make a credit-eligible contribution.

Some limitations apply. Individuals should consult a tax professional for information regarding their specific situations.

Source: IRS

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