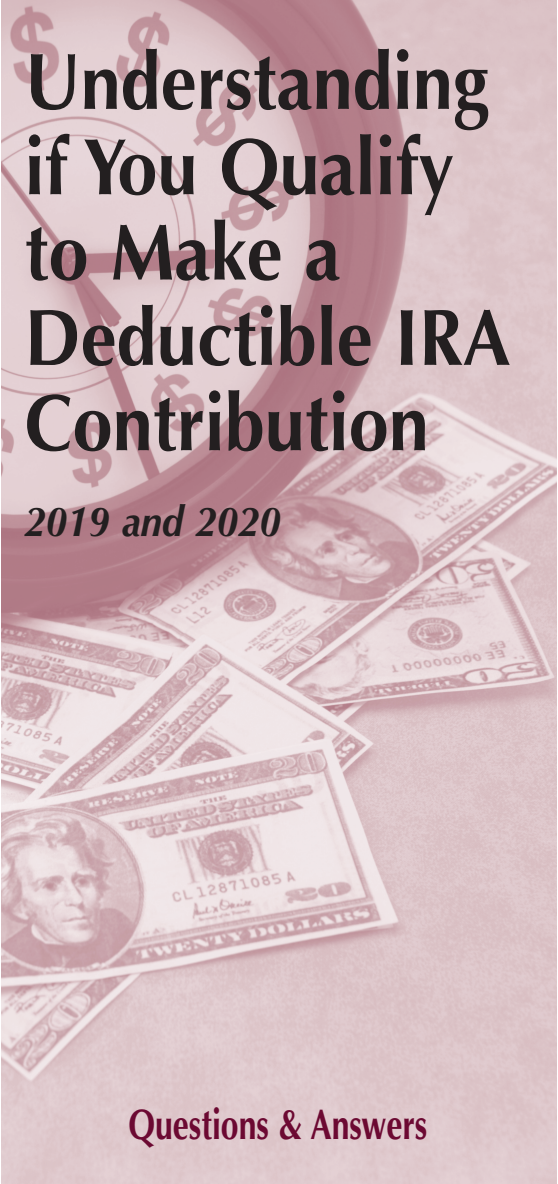




IRAs



Understanding if You Qualify to Make a Deductible IRA Contribution

2019 and 2020

Questions & Answers

Purpose

The approach of the tax law is to allow you (i.e. any taxpayer) to deduct your IRA contribution only if you meet certain rules. These rules depend upon whether or not you are covered by a retirement plan at work and your modified adjusted gross income. This brochure explains how you determine what portion, if any, of your IRA contribution to a traditional IRA may be allowed as a tax deduction for federal income tax purposes for 2019 and 2020.

Many individuals incorrectly believe they are ineligible to claim a tax deduction for their IRA contribution. There are various dollar limits and these limits are adjusted pursuant to a cost of living formula. Due to the increase in these limits you now may be eligible to claim a tax deduction for your IRA contribution.

How do I know if I am covered by a retirement plan at work?

A “retirement plan at work” is a plan set up by your employer for your benefit and the benefit of other employees. If you are not sure whether you are covered by a retirement plan at work, your employer should be able to tell you. As a general rule, you are considered covered for a given year only if you or your employer makes a contribution on your behalf.

Form W-2. The Form W-2, Wage and Tax Statement, that you receive will have a check in box 13, “Retirement Plan” if you are covered by a plan of that employer.

What types of plans constitute an employer retirement plan?

For purposes of the IRA deduction rules, an employer retirement plan is any of the following:

- A qualified (meets Internal Revenue Code requirements) pension, profit sharing, stock bonus, money purchase pension plan, etc. (including Keogh plans).
- A 401(k) plan (generally an arrangement included in a profit sharing or stock bonus plan that allows you to choose to take part of your compensation from your employer in cash or have your employer pay it into the plan).
- A union plan (a qualified stock bonus, pension, or profit sharing plan created by a collective bargaining agreement between employee representatives and one or more employers).
- A qualified annuity plan.

- A plan established for its employees by the United States, a state or political subdivision thereof, or by an agency or instrumentality of any of the foregoing (other than an eligible state deferred compensation plan (section 457 plan).
- A tax-sheltered annuity plan for employees of public schools and certain tax-exempt organizations (403(b) plan).
- A Simplified Employee Pension (SEP) plan.
- A 501(c)(18) trust (a certain type of tax-exempt trust created before June 25, 1959, that is funded only by employee contributions) if you made deductible contributions during the year.
- A SIMPLE-IRA plan.

What type of activity does not mean I am considered covered by a retirement plan for IRA deduction purposes?

Coverage under Social Security or Railroad Retirement does not count as coverage by a plan at work.

If you are receiving retirement benefits from a previous employer's plan, you are not considered as covered for IRA deduction purposes.

Am I ineligible to make an IRA contribution because I am covered by a retirement plan at work?

No. The fact that you are covered by a retirement plan at work affects your ability to claim a tax deduction for the contribution, but not your ability to make the contribution.

What are the contribution limits for a person who is not age 50 or older?

<u>Tax Year</u>	<u>Amount</u>
2017-2018	\$5,500
2019-2020	\$6,000*

What are the contribution limits for a person who is age 50 or older?

<u>Tax Year</u>	<u>Amount</u>
2017-2018	\$6,500
2019-2020	\$7,000*

* In future years this amount may also increase for COLA.

When can I take a full IRA deduction?

If you are not married and you are not covered by a retirement plan at work, then you can take a full IRA deduction of up to your contribution limit, or the amount of your taxable W-2 or other qualifying compensation for the year, whichever is less.

If you are not married (and not a qualifying widower) and you are covered by a retirement plan at work, then you can take a full IRA deduction of up to your contribution limit, or the amount of your taxable compensation, whichever is less, as long as your adjusted gross income is \$64,000 or less for 2019 and \$65,000 or less for 2020.

If you are married and you and your spouse are not covered by a retirement plan at work, then each of you can take a full IRA deduction up to your contribution limit, or the amount of your compensation, whichever is less.

If you are married and you and your spouse are covered by a retirement plan at work, then each of you can take a full IRA deduction up to your contribution limit or the amount of your respective compensation, whichever is less, as long as you and your spouse's adjusted gross income is \$103,000 or less for 2019, or \$104,000 or less for 2020, and a joint income tax return is filed.

When am I (or my spouse) not entitled to any deduction with respect to an IRA contribution?

If you are not married, then you are unable to deduct any portion of your IRA contribution if you are covered by a retirement plan at work and your adjusted gross income is \$74,000 or more for 2019, and \$75,000 or more for 2020.

If you are married and you file a joint income tax return, then you are not entitled to deduct any portion of your IRA contribution if you and your spouse are covered by a retirement plan at work and you and your spouse's adjusted gross income is \$123,000 or more for 2019, and \$124,000 or more for 2020.

If you are married, but you file separate tax returns, then you are not entitled to deduct any portion of your IRA contribution if either you or your spouse is covered by a retirement plan at work and your adjusted gross income is \$10,000 or more.

When am I (or my spouse, if any) entitled to a partial tax deduction with respect to an IRA contribution?

The “Can I Take an IRA Deduction” chart indicates when you are entitled to a partial tax deduction.

How do I calculate the maximum partial deduction?

You use the following formula.

$$\frac{\text{AGI} - \text{Threshold Level}}{\$10,000} = \text{Nondeductible Percentage (NDP)}$$

$$\text{NDP} \times \text{Eligible Contribution} = \text{Nondeductible Amount (NDA)}$$

If the NDA is not a multiple of \$10, it is rounded down to the next lowest multiple of \$10.

$$\text{Eligible Contribution} - \text{NDA} = \text{Deductible Amount}$$

However, the deductible amount will not be less than \$200 for any person who is eligible to make a contribution.

The threshold levels are as follows:

Single or Head of Household	for 2019	\$64,000.00
	for 2020	\$65,000.00
Married Filing Jointly and both are active participants, or for the spouse who is an active participant (also qualifying widow/widower)	for 2019	\$103,000.00
	for 2020	\$104,000.00
Married Filing Jointly but one spouse is not an active participant	for 2019	\$193,000.00
	for 2020	\$196,000.00
Married Filing Separately	for 2019	\$0.00
	for 2020	\$0.00

Examples

Example #1: Sonny Jones is age 48 and single. In 2019, he is covered by a retirement plan at work. His salary is \$49,000, and his modified adjusted gross income (MAGI) is \$67,000. Sonny makes a \$6,000 IRA contribution for 2019. Because he is covered by a retirement plan, and his MAGI is above \$64,000, he cannot fully deduct his \$6,000 IRA contribution.

2019 and 2020 IRA Deduction Limits-Effect of Modified AGI on Deduction If You are Covered by a Retirement Plan at Work

<u>If your Filing Status is...</u>	<u>and Your MAGI is...</u>	<u>Then You Can Take...</u>
2019		
Single, head of household	\$64,000 or less	a full deduction up to the amount of your contribution limit
	more than \$64,000 but less than \$74,000	a partial deduction
	more than \$74,000	no deduction
2020		
Single, head of household	\$65,000 or less	a full deduction up to the amount of your contribution limit
	more than \$65,000 but less than \$75,000	a partial deduction
	more than \$75,000	no deduction
2019		
Married filing jointly or qualified widower	\$103,000 or less	a full deduction up to the amount of your contribution limit
	more than \$103,000 but less than \$123,000	a partial deduction
	more than \$123,000	no deduction
2020		
Married filing jointly or qualified widower	\$104,000 or less	a full deduction up to the amount of your contribution limit
	more than \$104,000 but less than \$124,000	a partial deduction
	more than \$124,000	no deduction
2019 and 2020		
Married filing separately	less than \$10,000	a partial deduction
	\$10,000 or more	no deduction

Exception. If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "Single" filing status.

His nondeductible percentage is 30%, as $\$67,000 - \$64,000 \div \$10,000 = 30\%$. He is eligible to make a nondeductible contribution of \$1,800 ($\$6,000 \times 30\%$). He is eligible to make a deductible contribution of \$4,200 ($\$6,000 - \$1,800$).

Example #2: Mary, a single taxpayer, age 48, with \$72,000 of adjusted gross income, is not covered by her employer's retirement plan in 2019.

How much can Mary contribute to her IRA for 2019? \$6,000

How much can Mary deduct on her tax return for 2019? \$6,000

Since Mary is not covered by an employer-sponsored retirement plan, she is entitled to take the full \$6,000 deduction. Her level of adjusted gross income is not of any concern because she is not an active participant.

2019 and 2020 IRA Deduction Limits-Effect of Modified AGI on Deduction If You are NOT Covered by a Retirement Plan at Work

<u>If your Filing Status is...</u>	<u>and Your MAGI is...</u>	<u>Then You Can Take...</u>
Single, head of household or qualifying widower	any amount	a full deduction up to the amount of your contribution limit
Married filing jointly or separately with a spouse who is not covered by a plan at work	any amount	a full deduction up to the amount of your contribution limit
2019		
Married filing jointly with a spouse who is covered by a plan at work	\$193,000 or less	a full deduction up to the amount of your contribution limit
	more than \$193,000 but less than \$203,000	a partial deduction
	more than \$203,000	no Deduction
2020		
Married filing jointly with a spouse who is covered by plan at work	\$196,000 or less	a full deduction up to the amount of your contribution a limit
	more than \$196,000 but less than \$206,000	a partial deduction
	more than \$206,000	no Deduction
2019 and 2020		
Married filing separately With a spouse who is covered by a plan at work	less than \$10,000	a partial deduction
	\$10,000 or more	no Deduction

Exception. If you file separately and did not live with your spouse at any time during the year, your IRA Deduction is determined under the "Single" filing status.

Example #3: Avery and Glenda, both age 57, are a married couple with \$113,000 of combined adjusted gross income for 2019. Both have salaries of \$45,000 plus other joint income of \$23,000. Glenda is an active participant in her employer's money purchase pension plan. Avery is not covered by a pension plan.

How much can Avery contribute to his IRA for 2019?	\$7,000
How much can Glenda contribute to her IRA for 2019?	\$7,000
How much can Avery and Glenda <u>deduct</u> with respect to Avery's contribution on the tax return for 2019?	\$7,000*
How much can Glenda and Avery <u>deduct</u> with respect to Glenda's contribution on the tax return for 2019?	\$3,500

Avery and Glenda, or their tax preparer, must apply the formula as discussed above to determine the nondeductible and deductible amounts for Glenda since she is covered by a pension plan.

$$\frac{\$123,000 - \$113,000}{\$20,000} = \frac{\$10,000}{\$20,000} = 50\% = \text{Nondeductible Percentage}$$

\$7,900 (\$7,000 x 50%) is the deductible portion and \$3,500 (\$7,000 x 50%) is the nondeductible portion.

When Avery and Glenda file their joint income tax return, they will be permitted to take a total deduction of \$10,500 (\$3,500+\$7,000) for their IRA contributions. NOTE: SEPARATE CALCULATIONS ARE MADE FOR EACH SPOUSE.

**Many people are unaware that a \$7,000 deduction is granted for this situation—when one spouse is not an active participant, but the other spouse is. The phaseout range for this situation for 2019 is \$193,000 to \$203,000, and not \$103,000 to \$123,000, as it is when both spouses are active participants. The phaseout range for this situation for 2020 is \$196,000 to \$206,000, and not \$104,000 to \$124,000 as it is when both spouses are active participants. Many individuals who not covered by a Retirement plan mistakenly believe that they are ineligible to make a deductible IRA contribution when their spouse participates in a 401(k) plan.*

Example #4: Gary and Rita are married, and Gary is an active participant. Rita does not have earned income. Their adjusted gross income is \$85,000 for tax year 2019. Both are age 56 in 2019.

How much can Gary and Rita contribute to their IRA accounts when added together for 2019?..... \$14,000

What is the maximum contribution that can be made to either Gary's or Rita's IRA account for 2019? \$7,000

How much can Gary and Rita deduct on their tax return for 2019?..... \$14,000

Even though Gary is considered an active participant, this couple is entitled to a full IRA deduction because their adjusted gross income does not exceed the threshold level of \$103,000 for 2019.

For more contribution information.

Refer to IRS Publication 590-A or consult with your tax advisor.

The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.