

What is an IRA?

An individual retirement account (IRA) is a trust created in the United States for the exclusive benefit of you or your beneficiary. Pending certain guidelines, you are allowed to defer up to \$5,500 of income from current taxation in 2016 and 2017. A married couple can defer a total of \$11,000 in 2016 and again in 2017. If you are age 50 or over, you may contribute an additional \$1,000 in 2016 and 2017.

Can I contribute to an IRA?

You can contribute to an IRA if you have earned income and have not reached age 70½ by the end of the tax year. Earned income includes wages, salaries, bonuses, tips, commissions, alimony, and other amounts received for performing personal services, including those performed by a self-employed individual.

How much can I contribute to an IRA?

You can contribute the lesser of your earned income or \$5,500 for 2016 and 2017. Contributions to a Roth IRA are combined with IRA contributions when determining these limits.

For 2016 and 2017, married taxpayers filing a joint return can contribute up to \$5,500 each to an IRA if:

- Either spouse has earned income; and
- Together they have at least \$11,000 of earned income in 2016 and 2017.

If you are age 50 or over, an additional contribution of up to \$1,000 is allowed for 2016 and 2017.

Maximum deductible contributions are based on modified adjusted gross income (MAGI). For most taxpayers, MAGI is the same as adjusted gross income. Contributions that exceed the maximum amount allowed are subject to an excess contribution penalty of 6%.

Excess contributions withdrawn from the IRA before the tax return due date (plus extensions) are not subject to the 6% tax, provided that no deduction is taken for the amount withdrawn. Income earned on the amount withdrawn, however, is taxable and the 10% penalty for early withdrawal may apply to this amount.

What contributions can I deduct?

Contributions to an IRA are fully deductible, regardless of income level, if neither you nor your spouse is an active participant in an employer retirement plan. Generally, if Box 13, “Retirement Plan,” is checked on your W-2, you are an active participant.

If you are single and an active participant in an employer plan, your IRA contributions are deductible as long as your 2016 MAGI does not exceed \$71,000. Only partial deductions are allowed when your MAGI exceeds \$61,000 but is less than \$71,000. In 2017, partial deductions are allowed if your MAGI exceeds \$62,000, but is less than \$72,000. No deduction is allowed if your MAGI exceeds \$72,000. These limits are scheduled to increase with inflation in future years.

If you are married and not covered by an employer plan, but your spouse is, you can claim a full IRA

deduction if your joint 2016 MAGI is less than \$184,000 (\$186,000 in 2017). Joint MAGI between \$184,000 and \$194,000 (between \$186,000 and \$196,000 in 2017) qualifies for a partial deduction.

If you are married and both you and your spouse are covered by an employer plan, no amount of your contribution is deductible if your joint 2016 MAGI exceeds \$118,000 (\$10,000 if married filing separate). You are allowed a partial deduction if the joint MAGI is more than \$98,000 but less than \$118,000 (in 2017 the range is \$99,000 to \$119,000).

Nondeductible IRA contributions are reported on IRS Form 8606. While contributions are made with after-tax dollars, earnings accumulate tax-free until distributed. If Form 8606 is not filed, the contributions are considered deductible contributions and will be included in income when they are distributed.

Is there a deadline for establishing an IRA and contributing?

IRAs must be established and funded by the tax return filing deadline (not including extensions) for the year in which the plan is to become effective. Generally, this deadline is April 15.

When can I take IRA distributions?

You can take IRA distributions at any time, but there is a 10% penalty on the amount distributed, in addition to regular tax, if the distribution is made

before you reach age 59½. However, exceptions may apply.

The exceptions to paying the 10% early-withdrawal penalty are:

- The distribution is a series of substantially equal payments based on your life expectancy (or your life and the life of your beneficiary). These payments must continue for at least five years or until you reach age 59½, whichever is later.
- The IRA account owner dies or becomes disabled.
- The distribution is a return of nondeductible contributions.
- You roll the distribution into another IRA within 60 days.
- You use the distribution for medical expenses in excess of 10% of your MAGI, regardless of whether you itemize.
- You are a first-time homebuyer or pay higher education expenses.
- You use the distribution to pay health insurance premiums when you are unemployed for twelve weeks or more.
- Distributions are due to an IRS levy.
- Distributions made to reservists or National Guard members during active duty if called to active duty for a period exceeding 179 days after September 11, 2001.

When must I take IRA distributions?

You must start taking distributions by April 1 of the year following the year you reach age 70½, or there is a 50% penalty on the amount not distributed as required.

How are IRA proceeds taxed?

Deductible amounts contributed to an IRA will be fully taxable upon distribution. For contributions of nondeductible amounts, only the earnings allocated to the distribution will be taxed. There are

special rules for determining the taxable amount when both deductible and nondeductible amounts have been contributed to an IRA.

What if I'm self-employed?

Self-employed individuals can contribute to an IRA. Earned income for the self-employed is the net amount obtained from the business. This amount does not include income deferred into retirement plans or one-half of the self-employment tax. For business income to count as earned income, personal services must have been provided to the business. If a business has a loss, but there are wages from employment, the loss from the business does not reduce the wages for IRA contribution purposes.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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