

IRAs: Questions and answers

Over the years Congress has rewritten the rules on Individual Retirement Accounts, hoping to spur additional savings by individuals and families through expanded tax incentives. But the series of adjustments, along with the introduction of Roth IRAs several years ago, has left many people with questions about their eligibility to make contributions and about how much they are entitled to contribute.

Below are some of the more common questions that we've been asked about IRAs.

How much can I contribute?

With both traditional and Roth IRAs, you can make contributions up to the deadline for filing your federal income tax return—not including extensions. For 2008 the maximum contribution is \$5,000. Starting in 2009, maximums will be adjusted annually for inflation in \$500 increments. Plus, if you are age 50 or older, you are entitled to add an additional \$1,000 “bonus” contribution to your IRA.

Which IRAs can I make my contributions to?

You can make contributions to an IRA, Roth IRA or both, as long as the total contribution doesn't exceed the maximum allowed in any year. But you may make a contribution to a Roth IRA only if your modified adjusted gross income (MAGI) is no more than \$169,000 (marrieds filing jointly) or \$116,000 (singles). Partial contributions are allowed for AGIs between \$159,000 and \$169,000 (marrieds) or between \$101,000 and \$116,000 (singles).

What happens if my spouse doesn't work?

As long as you file a joint return, you may set up a “spousal IRA,” and make up to the maximum contribution on behalf of your spouse—even if he or she has no income from employment.

Are my contributions tax deductible?

Are my IRA contributions always tax deductible?

Not necessarily. It depends whether you participate in your company's retirement plan. In 2008, when both you and your spouse are covered by a company plan, file a joint return and your MAGI does not exceed \$85,000, your contribution is fully deductible. The deduction then becomes partial, and is no longer available when your MAGI reaches \$105,000. The corresponding numbers for couples with only one spouse covered by a plan is \$159,000 and \$169,000. For singles, the phase-out range is between \$53,000 and \$63,000.

If your spouse does not work, he or she may contribute up to \$5,000 in 2008 (\$6,000 if age 50 or older) as long as you file a joint return. But the deductibility of your nonworking spouse's contribution is phased out for couples with MAGI between \$159,000 and \$169,000, if you are covered by a qualified retirement plan.

Are my Roth IRA contributions deductible?

There's no deduction for a Roth IRA contribution. But, remember, unlike a traditional IRA, earnings from your Roth IRA are tax free. Contributions may be withdrawn tax free as well, if you meet certain requirements. Two tests must be met for tax-free withdrawals: (1) the distribution must be made after the end of a five-year period and (2) you must be at least age 59 1/2 or older when the distribution is made; you are disabled; you use the distribution to pay up to \$10,000 of qualifying first-time home-buying expenses, or you are a beneficiary receiving distributions following the death of the account owner.

What's this I've heard about a "sunset provision"?

The 2001 Tax Relief Act that brought us the larger contribution amounts has a special repeal provision. At the end of 2010, all the new provisions of that law expire, and we return to the rules in place under prior law. Therefore, unless Congress acts sometime before then to eliminate this "sunset provision," these new, larger contribution amounts will become history.

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Any developments occurring after January 1, 2008, are not reflected in this article.