

# 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 2006 and 2007 the maximum contribution will be \$4,000; in 2008, \$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 adjusted gross income (AGI) is no more than \$160,000 (marrieds filing jointly) or \$110,000 (singles). Partial contributions are allowed for AGIs between \$150,000 and \$160,000 (marrieds) or between \$95,000 and \$110,000 (singles).

## **What happens if my spouse doesn't work?**

As long as you file a joint return, you may set up a “spousal IRA,” making contributions up to the maximum allowed (including the extra age-dependent \$500) on behalf of your spouse—even if he or she has no income from employment.

## **Are my contributions tax deductible?**

If you participate in a company retirement plan, you may be able to deduct contributions to a traditional IRA. It all depends upon your AGI. A full deduction is allowed for your 2006 contribution when your AGI is not more than \$75,000 (if you are married filing jointly) or \$50,000 (if you are single). A partial deduction is allowed for the next \$10,000 of your AGI. Therefore, if you are married, filing a joint return, no deduction is available once your AGI reaches \$85,000 (\$60,000 if you are single). The deduction range will grow over the next few years, but only for married couples. In 2007 and after, married couples will be entitled to a

full or partial deduction when their AGI ranges from \$80,000 to \$100,000. For singles, for the year 2005 and later, the deduction range stays between \$50,000 to \$60,000.

If you file a joint return and contribute to a spousal IRA, you may deduct your contributions to a spouse's traditional IRA, even if you participate in a company plan. But you may not deduct your contributions if you and your spouse's combined AGI is greater than \$160,000. (A partial deduction is available if your AGI is between \$150,000 and \$160,000.)

### **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 15, 2007, are not reflected in this article.