# (ALMOST)

# EVERYTHING YOU NEED TO KNOW ABOUT IRAS

## Eligibility

For **traditional IRAs** (contributions deductible, withdrawals taxable), whether you qualify to make deductible contributions depends on whether you are covered by a workplace retirement plan and your Modified Adjusted Gross Income.* The table below assumes you are covered by a workplace plan. After the table, you'll find information that pertains to two more circumstances:

- You're not covered by a workplace plan but you're married and your spouse is covered
- You're not covered by a workplace plan and, if you're married, you're spouse isn't covered either.

According to the IRS, you're "**covered" by an employer's retirement** plan if your company offers such a plan and you contributed to the plan or your employer contributed to the plan on your behalf. In the case of a defined-benefit plan, such as a traditional pension plan, if you're eligible for the plan, you're "covered."

For **Roth IRAs** (contributions not deductible, withdrawals tax-free), whether you qualify to make contributions at all depends on your income, as outlined in the following table. Your participation in a workplace retirement plan does not matter.

| Your Income Group | Modified Adjusted Gross Income for Single Taxpayers | Modified Adjusted Gross Income for Married Taxpayers Filing Jointly | Deduction for Contribution to Traditional IRA? | Eligible for Contribution to Roth IRA? |
|---|---|---|---|---|
| **Group 1** | ≤ $64,000 | ≤ $103,000 | Yes | Yes |
| **Group 2** | $64,001 to $73,999 | $103,001 to $122,999 | Partial | Yes |
| **Group 3** | $74,000 to $121,999 | $123,000 to $192,999 | No | Yes |
| **Group 4** | $122,000 to $136,999 | $193,000 to $202,999 | No | Partial |
| **Group 5** | ≥ $137,000 | ≥ $203,000 | No | No |

Group 6. This group, which isn't represented in the table, is for married people filing jointly who are not covered by a workplace plan, but their spouse is covered. You qualify for a full deduction for money contributed to a traditional IRA as long as your Modified Adjusted Gross Income is $193,000 or less. If it is above that threshold but below $203,000, you qualify for a partial deduction. At $203,000 of MAGI or above, you may not take any deduction. Remember, with Roth IRAs, it doesn't matter whether you or your spouse are covered by a workplace retirement plan. All that matters is your household's MAGI.

Group 7. Finally, all you folks who aren't covered by a retirement plan at work (and, if married, neither is your spouse), pay attention: You're the exception to most of the rules. No matter which group you're in, you are entitled to a full tax deduction for any contributions you make to a traditional IRA. And unless you're in Group 5, a Roth IRA is also an option.

***What is your Modified Adjusted Gross Income?**

## Contribution Limits

Although traditional IRAs and Roth IRAs receive different tax treatment, certain ground rules apply to both types of accounts. One is that total contributions are limited to a certain amount per year. For the 2019 tax year, total IRA contributions are capped at $6,000 per person ($12,000 per married couple) as long as you have at least that much earned income. If you are 50 years old or over, you're allowed to contribute $7,000. Contributions may be split between a traditional IRA and a Roth IRA, but your overall contributions may not exceed the limit.

## Stay-at-Home Spouses

Stay-at-home spouses often wonder about their IRA eligibility. If a husband and wife file a joint tax return, they can make contributions for both the "working" spouse and the "non-working" spouse (not our choice of terms, we assure you!), as long as their combined earned income is at least as large as the IRA contributions made. It doesn't matter how much each spouse earned, or even if one didn't earn any income at all. So, for 2019, a married couple younger than age 50 could contribute a maximum of $12,000 ($6,000 for each) as long as their overall earnings were at least $12,000 during the year. If one spouse is 50 or older, he or she could contribute $7,000. If both spouses are 50 or older, they could each contribute $7,000, or a combined $14,000. The contributions must be made to separate IRA accounts, however, since there's no such thing as a "joint" IRA.

## Unique Roth IRA Benefits

**Penalty-free early withdrawals.** While the money in retirement accounts is generally best left in the accounts until your later years, if you absolutely needed to get your hands on the money before then, a Roth IRA gives you that flexibility. Since you've already paid taxes on the money you contributed to a Roth, you are allowed to withdraw those contributions at any time and for any reason without any type of penalty. You are allowed to withdraw earnings before age 59½ as long as: 1) Your account has been open for at least five years; and 2) You use the money for a first-time home purchase or to cover qualified higher education expenses. With a traditional IRA, withdrawals before age 59½ are subject to income tax and a 10% penalty.

**Withdrawals not required.** With a traditional IRA, you are allowed to begin withdrawing money from the account penalty-free at age 59½, but you have to begin making withdrawals at age 70½. The IRS gave you a tax deduction for your contributions, so this is as long as it's willing to wait before taxing the money. Those withdrawals are known as RMDs, or Required Minimum Distributions. The specific amount you must withdraw each year is based on your life expectancy (here's the **IRS RMD Worksheet**). With a Roth IRA, on the other hand, you can keep all of the money in the account as long as you'd like to. If you don't need the money for living expenses, this enables you to maintain or grow the account for the benefit of your heirs or favorite charity.

**Continued contributions allowed.** With a **traditional IRA**, you can no longer make contributions to the account beginning at age 70½. With a **Roth IRA**, there are no such restrictions. If you have the means and desire to do so, you can continue making contributions for the benefit of your heirs or favorite charity. The one requirement is that you must have at least as much earned income as you contribute each year.

## Roth/Traditional IRA Calculator

When choosing between a traditional and a Roth IRA, the general objective to keep in mind is that it's best to pay taxes when you're in a relatively low tax bracket. So, if you're young and just starting out in your career, you will probably be best served by using a Roth IRA. While you won't receive a tax deduction for your contributions, you'll have many years of tax-free investment growth ahead of you and you may end up in a higher tax bracket when you're older. On the other hand, if you're further along in your career and earning a high salary (and paying a high tax rate), you may be better off using a traditional IRA and getting the tax deduction for your contributions. Of course, there are some nuances to this decision as well, which is why you may benefit by using the calculator below to help decide between a traditional and a Roth IRA.

**Bankrate.com calculator**