# TRADITIONAL IRAs

Individual Retirement Accounts (IRAs) are tax-advantaged accounts and one way to set aside funds for retirement. In order to fund an IRA, an individual must have earned income, and depending on income levels and participation in an employer sponsored plan or other IRAs, the contribution may or may not be deductible. Contributions and earnings in these accounts grow tax-deferred but must start being withdrawn once the individual turns age 70 ½.

## FEATURES

### CONTRIBUTION LIMITS

For 2015, the maximum deductible contribution is $5,500. Individuals age 50 or older by year-end may make an additional $1,000 "catch-up" contribution. Those filing jointly can contribute $11,000 if under age 50, or $13,000 if both are age 50 or older by the end of the year.

### CONTRIBUTION DEDUCTIBILITY

IRA contributions may be tax-deductible, depending on their adjusted gross income and whether the individual or spouse is covered by an employer-sponsored plan at work. Individuals are covered by a retirement plan if the individuals or their employers have made contributions to a defined contribution plan, or the individuals are eligible for a defined benefit pension plan (even if they refuse participation).

For this year, here are the eligibility requirements to make deductible IRA contributions:

**Covered By Employer-Sponsored Retirement Plan**

For single filers and those filing as a head of household, if their modified AGI is under $61,000, they are allowed to make a deductible IRA contribution. If their income is between $61,000 and $71,000, they are able to make a reduced deductible contribution, and for those with AGIs over $71,000, they are not eligible to make a tax-deductible contribution.

For those filing jointly or a qualifying widow(er), if their modified AGI is under $98,000, they can make a fully deductible contribution. For AGIs between $98,000 and $118,000, they can make a reduced deductible contribution, and if their AGI is over $118,000, they are not eligible to make a tax-deductible contribution.

**Not Covered By Employer-Sponsored Retirement Plan**
For all filers, they can make a fully deductible IRA contribution.

**Spousal IRAs**

For joint filers, if one spouse is not employed or employed but not covered by an employer-sponsored plan while the other spouse is, if their modified AGI is under $183,000, that spouse can make a deductible IRA contribution. If their AGI is between $183,000 and $193,000, the spouse can make a reduced deductible IRA contribution, and for AGIs over $193,000, the spouse is no longer eligible to make a deductible IRA contribution.

## NON-DEDUCTIBLE CONTRIBUTIONS

If an individual is covered by an employer-sponsored retirement plan or does not meet the income requirements above for making a deductible IRA contribution, he or she can still make a non-deductible contribution. Each time a non-deductible IRA contribution is made, IRS Form 8606 must be filed as it serves to notify the IRS of the nondeductible contribution and helps to determine the portion of future distributions that are nontaxable. Earnings will still grow tax-deferred and once distributions begin, a portion will be non-taxable to take into account the non-deductible contributions. The remaining amounts which include any pre-tax contributions and all earnings will be taxed as ordinary income.

## CONTRIBUTION DEADLINE

Contributions to an IRA can be made any time during the year or up to the tax filing deadline for that year, not including extensions. Contributions that exceed the contribution limit and are not withdrawn by the tax return due date for that year are considered excess contributions and are subject to a 6% “excess contribution” tax.

## DISTRIBUTIONS

IRA distributions are subject to income taxes for any pre-tax contributions and earnings. Individuals can withdraw funds from an IRA at any time, but those under age 59 ½ will incur a 10% penalty in addition to income taxes in the year the distribution is made. There are exceptions to the 10% early withdrawal penalty and these include death, total disability, SEPP (discussed below), or a distribution that meets certain requirements in purchasing a first home.

## REQUIRED MINIMUM DISTRIBUTIONS (RMD)

To ensure that IRAs are used for retirement income and not for estate planning purposes, IRA holders must begin making withdrawals by April 1 of the year after reaching age 70½ (the required beginning date). The minimum amount that must be withdrawn (RMD) is calculated by dividing the account balance on December 31$^{st}$ of the year preceding the distribution by the IRA owner’s life expectancy as found in IRS Publication 590. Failure to withdraw the RMD before December 31$^{st}$ results in 50% excise tax on the amount not distributed as required.

## SUBSTANTIALLY EQUAL PERIODIC PAYMENTS (SEPP)

Substantially equal periodic payments (SEPP) are one of the exceptions in the United States IRS Code that allows individuals under age 59 ½ to start receiving payments without incurring a 10% early distribution penalty. The individual must be at least 55 to take SEPP and the rules for SEPPs are set out in IRS code section 72(t). It allows for three specific methods of calculating the allowed withdrawal amounts and SEPP payments must continue for the longer of five years or until the account owner reaches age 59 ½.