
Photo: Christin Hume

The start of each year might be considered "Double IRA" season. Until mid-April (the 15th, in 2019), you still can make contributions to an IRA for 2018, if you have funds you'd like to save for retirement. Most workers and their spouses may each contribute up to $5,500, or $6,500 for those who were 50 or older at the end of 2018.

If you have additional dollars to invest, you also can put them into an IRA for 2019, now that the year has begun. The sooner you put money into a 2019 IRA and choose investments, the sooner tax-advantaged buildup might begin.

Note that such IRA contributions are permitted even if you also participate in an employer's retirement plan. The same is true if you participate in a SEP-IRA or SIMPLE IRA through your company or self-employment.

Three for the Money

Many workers can choose from among three types of IRAs.

Deductible IRAs. Whereas most workers and their spouses can *contribute* to regular (traditional) IRAs, only some people can *deduct* their contributions. A full deduction is available if you do not participate in an employer's retirement plan; if you do participate, the deduction allowed depends on your income.

> **Example 1:** Paula Adams, a single taxpayer who participates in a 401(k), must have had modified adjusted gross income (MAGI) of $63,000 or less in 2018 for a full deduction on her 2018 tax return. If her MAGI is greater than $63,000 but less than $73,000, a partial deduction is allowed.
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> Different MAGI numbers apply to married taxpayers filing joint returns, qualifying widows or widowers, and married taxpayers filing separate returns.
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> Contributions to traditional IRAs are not allowed after you reach age 70½.

Roth IRAs. Contributions to Roth IRAs are never tax deductible. However, once you have had a Roth IRA account for five years and reach age 59½, all withdrawals — including withdrawn investment earnings — are untaxed.

> There are no age limits for contributions to a Roth IRA. However, income limits apply.
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> **Example 2:** Rick Baker, a single taxpayer, must have had MAGI of $120,000 or less in 2018 for a full contribution to a Roth IRA for 2018. Rick can make a partial contribution if his MAGI is greater than $120,000 but less than $135,000, and no contribution if his MAGI is $135,000 or more.
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> Different MAGI numbers for Roth IRA contributions apply to married taxpayers filing joint returns, qualifying widows or widowers, and married taxpayers filing separate returns.

Nondeductible traditional IRAs. Some workers and workers' spouses will not be able to deduct contributions to traditional IRAs or contribute to Roth IRAs because of their income.

> **Example 3:** Carol Davis, a single taxpayer who participates in a 401(k), had MAGI of $220,000 in 2018. That puts her over the upper MAGI limits for traditional IRA deductions ($73,000) and Roth IRA contributions ($135,000), mentioned previously. However, as long as Carol was under age 70½ by the end of 2018, she can make a full nondeductible contribution to a traditional IRA. Any earnings within this IRA will not be taxed until money is withdrawn.
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> Once money is in a traditional IRA, it can be converted to a Roth IRA, in which future distributions may be untaxed. Roth IRA conversions have no income or age limits.

Tax Trap

Roth IRA conversions generate tax bills if pretax dollars are moving into an after-tax account. That may not be the case if only after-tax dollars are being converted.

Example 4: Suppose that Carol Davis from example 3 is 55 years old. She contributes $6,500 to a nondeductible traditional IRA for 2018. Carol has no pretax money in any other traditional, SEP, or SIMPLE IRA. If she converts that $6,500 to a Roth IRA, Carol will owe no tax. She will have made what's known as a *back-door Roth IRA contribution* and will get around the income limits.

Behind the Back Door

- Suppose a taxpayer with $26,000 of pretax money in a traditional IRA makes a $6,500 nondeductible contribution to a new traditional IRA.
- That brings the IRA total to $32,500, of which $6,500 (20 percent) is after-tax money.
- Then**,** a Roth IRA conversion of any amount will be 20 percent tax-free and 80 percent taxable, regardless of which IRA is used for the Roth conversion.
- Such back-door Roth conversions may be most appealing to high-income taxpayers with little or no pretax money in traditional, SEP, or SIMPLE IRAs.

Additional Resources

If you need help with your financial plan, we can assist. In addition, below are some of our other financial planning tips you might like.

- [7 Ways to Prevent Financial Scams Directed At Elders]
- [Power of Attorney – Your Trusted Agent]
- [Throwing SALT Into The Property-Tax Wound]