Traditional IRA Deductibility

Quick Reference Guide

Use this guide to determine an individual's eligibility to claim a tax deduction for a contribution to a Traditional IRA on his/her federal tax return.

Traditional IRA Deductibility – For Tax Year 2010			
Notes:	**Tax-Filing Status**	**MAGI**	**Allowed Deduction**
• 100% means $5,000, unless you will be at least age 50 by 12/31/2010, in which case it is $6,000. • For individuals eligible for partial deductions (less than 100%), a formula must be used to determine the amount that you are eligible to deduct. See page 4	Single	$56,000 or less	100%
		$56,000 - $66,000	Partial
		$66,000 or more	None
	Married filing jointly. Person making contribution is an active participant	$89,000 or less	100%
		$89,000- $109,000	Partial
		$109,000 or more	None
	Married filing jointly. Person making contribution is not an active participant, but is married to an active participant	$167,000 or less	100%
		$167,000- $177,000	Partial
		$177,000 or more	None
	Married filing separately	Less than [illegible]0,000	Partial
		$10,00[illegible] [illegible]re	None
	Note: The chart should be read from the perspective of the person for whom the contribution is being made. For example, if you are making the contribution and your status is married filing jointly, you would say "I am married, and I am an active participant, so the $89,000 to $109,000 range would apply to me" or "I am married, and while I am not an active participant, I am married to an active participant, so the $167, 000 to $177, 000 range would apply to me".		
Regular contribution limit	$5,000		
Catch-up contribution limit	$1,000		
Contribution deadline	April 15, 2011		
Age Limitation	No contributions are allowed fo[illegible] year th[illegible]payer [illegible]ge 70 ½ and later.		

The general definition of an active participant is an individual who receives contributions or benefits under an employer sponsored plan. However, the rules defining who is an active participant vary among the types of employer sponsored plans. The following explains how these rules apply to the different types of employer sponsored plans.

Determination of "Who is an Active participant"	
SEP IRA & profit Sharing Plan	• You are an active participant for the year the contribution is deposited to your SEP IRA or profit sharing account. For instance, if the contribution is for last year and deposited last year, then you are an active participant for last year. However, if the contribution is for last year, but deposited to your account this year, then you are an active participant for this year. *An exception applies:* If contributions for two separate years are made in the same year, the contribution for the later year is treated as if it was made in the year that follows the year of the deposit.
Money Purchase Pension, Plan Target Benefit Plan	• You are an active participant for the year for which a forfeiture contribution is allocated, or a contribution is made regardless of when it is deposited to your [illegible] contribution is for last year and deposited last [illegible] participant for last year. If the contri[illegible] deposited to your account this year, you are an active participant for last year. [illegible] Even if you did not receive the 'required' contribution, you are still considered an active participant [illegible] been made. SAMPLE
Defined Benefit Plan	• You are an [illegible] are not excluded under the eligibility provisions of the plan for the plan year ending with or within your taxable year. This applies regardless of whether [illegible] elected to decline participation in the plan.
401(k), 403(b), SAR-SEP, SIMPLE IRA	• You [illegible] an active participant [illegible] deferral contributions to the plan. If you are eligible [illegible] deferral contributions but decline to do so and no other contributions [illegible] forfeitures are made to your account for the plan year [illegible] year, you are not an active participant for [illegible]
Lesser Known Rules	• [illegible] participation counts: If you are an active participant for only a few weeks in the year and/or your contributions only amount to a few dollars, you are still considered an active participant. SAMPLE • You are an active participant if salary deferral is an excess: If you make a salary deferral contribution and removed it because it was an excess contribution- you are still an active participant for the year. • *You Are Active- even if you don't 'own' the contributions-* [illegible] plans can include a vesting schedule [illegible] employer for a number of years [illegible] contributions made to your account. If you leave that employer [illegible] meeting the service requirements, you forfeit those contributions. Even if those contributions are forfeitable, you are still considered an active participant for that year.

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Retirement Account Related Terms are defined at www.retirementdictionary.com

Frequently Asked Questions

Q: How can I determine if I am eligible to deduct a contribution to my Traditional IRA?

A: The first step is to determine if you are an active participant, or married to an active participant.

If you are <u>not</u> an active participant, and you are <u>not</u> married to an active participant, then the contribution is fully deductible.

If you are an active participant, or married to an active participant, then the deductibility of the contribution is determined by your modified adjusted gross income (MAGI) and tax-filing status.

The chart on page 1 shows the MAGI limits that apply to each tax-filing status, and when a deduction is allowed.

Q: If I am eligible to claim a deduction for a Traditional IRA contribution, can I choose not to take the deduction?

A: Yes. You are not required to claim the deduction for a Traditional IRA contribution. You can choose to treat the amount as a nondeductible contribution by Filing IRS Form 8606, and not claim the deduction on your tax return.

Q: Are there any exceptions that would result in an individual not being an active participant?

A: Yes. Examples of exceptions that would result in you not being treated as an active participant for any taxable year include the following:

- You are covered only under a social security retirement program
- You receive only pension and annuity benefits from a previous employer's plan
- The only reason for your participation in a plan is as a result of being a member of a reserve unit of the armed forces and both of the following conditions are met:
  1. The plan is established for its employees by:
     a. *The United States,*
     b. *A state or political subdivision of a state, or*
     c. *An instrumentality of either (a) or (b) above.*
  2. You serve no more than 90 days on active duty during the year (not counting training).
- The only reason you participate in a plan is because of being a volunteer firefighter, and both of the following conditions are met:
  1. The plan is established for its employees by:
     a. *The United States,*
     b. *A state or political subdivision of a state, or*
     c. *An instrumentality of either (a) or (b) above.*
  2. Your accrued retirement benefits at the beginning of the year will not provide more than $1,800 per year at retirement, when expressed as a single life annuity commencing at age 65.

Q: I am 39 years old and eligible to deduct $ 2,000 of my traditional IRA contribution. Can I contribute the difference to a Roth IRA?

A: Yes. You may contribute the difference of $3,000 ($5,000- $2,000) to your Roth IRA, <u>providing you are eligible to make the Roth IRA contribution.</u> In fact, many individuals split their IRA contributions between both types of IRAs, in order to reap the benefits of both types: the deductibility for the Traditional IRA contribution- if eligible, and the potential tax-free growth for the Roth IRA contribution.

Q: What are the eligibility requirements for contributing to a Roth IRA?

A: You must have eligible compensation and your contribution limits are based on your age and MAGI, as indicated in the chart below. *[100% means $5,000 or $6,000 if at least age 50 by 12/31/2010].*

Contribution eligibility (in addition to being required to have eligible compensation/income).	Tax filing Status	MAGI	Allowed Contribution
	Single	$105,000 or less	100%
		$105,000 - $120,000	Partial
		$120,000 or more	None
	Married filing jointly	$167,000 or less	100%
		$167,000 -$177,000	Partial
		$177,000 or more	None
	Married filing separately	Less than $10,000	Partial
		$10,000 or more	None

Q: If I am an active participant, does that affect my Roth IRA contribution in any way?

A: No. Active participant status only affects your ability to deduct your IRA contribution. Since Roth IRA contributions are not deductible, it has no bearing on your Roth IRA contribution.

Q: My tax filing status is "Married Filing Separately". Are there any exceptions that would allow me to use another tax-filing status thus enabling me to fall within a more favorable phase-out range?

A: Yes. If you did not live with your spouse at any time during the year, you are eligible to use the phase-out range that applies to individuals who file as "single".

Q: Can I take the deduction for my traditional IRA contribution and still receive the Saver's Credit?

A: Yes. If you meet the eligibility requirements for both, you can claim both on your tax return.

Q: What are the eligibility requirements for claiming the Saver's Credit?

A: If your adjusted gross income (AGI) falls below certain amounts, you may be eligible to rec[illegible] nonrefun[illegible] tax credit of up to 50% of the IRA contributions and /or any salary deferral contributions that you ma[illegible] the year. This is referred to as the Saver's Tax Credit. The tax credit is capped at $1,000. The credit percentage ra[illegible] nonrefundable tax credit depends on your MAGI. The following table illustrates the percen[illegible] available for individ[illegible] within the indicated AGI ranges:

2010 AGI Thresholds for the Saver's Credit						
Credit Rate	Married and files a joint return		Files as head of household		Other category of filers	
	AGI Over	AGI Not Over	AGI Over	AGI Not Over	AGI Over	AGI Not Over
50%	$0.00	$33,500	$0.[illegible]	$[illegible],125	$0.00	$16,750
20%	$33,500	$36,000	$2[illegible]	[illegible],000	$16,750	$18,000
10%	$36,000	$55,500	$27[illegible]	$4[illegible]	$18,000	$27,750
0%	$55,500		$41,[illegible]		$27,750	

Other requirements for receiving the credit app[illegible] the following:

- You must be at least 18 years of age [illegible] year [illegible] the credit is claimed
- You cannot be claimed as a dependent [illegible] someone else's tax return
- You cannot be a full[illegible] student

Refer to IRS Form 8880 to determin[illegible] ount of credit [illegible] which you are eligible. Individuals who claim the credit should file a copy along with their tax returns.

Distributions Can Red[illegible] the Saver's Credit

Certain distributions [illegible] by you and/or your spouse can reduce the contribution eligibility for the savers credit. These include any taxable [illegible] stributions from a re[illegible] ement plan or IRA:

- That is [illegible] year [illegible] which the credit is claimed
- During [illegible] years, or
- During the period after the end of the year for which the credit is claimed and before the due date for filing your tax return for that year.

A distribution from a Roth IRA [illegible] not rolled over is taken into account for this reduction, even if the distribution is not taxable. Additional details on the Saver's Credit are available in IRS Announcement 2001-106, the instructions for Form 8880 and IRS Publication 590, which are available at www.irs.gov.

Q: If I make a nondeductible contribution to my traditional IRA, how do I make sure that amount is not taxed when withdrawn from the IRA?

A: You should file IRS Form 8606 to report the nondeductible contribution. Form 8606 lets the IRS know that the contribution is nondeductible and helps you- the IRA owner to keep track of the nondeductible amounts. Form 8606 prevents those amounts from being taxed when withdrawn from the IRA.

Note: Form 8606 should also be filed for any distribution that is taken from (or Roth IRA conversion made from) any of your Traditional, SEP or SIMPLE IRAs, for any year that you have nondeductible or after-tax amounts in any of your SEP or Traditional IRAs. This is so, because all of your Traditional, SEP and SIMPLE IRAs are treated as one IRA for purposes of determining the taxable portion of any distribution.

Q: How is MAGI calculated for purposes of determining deductibility of IRA contribution?

A: The following worksheet can be used to determine your MAGI for deducting your Traditional IRA Contribution.

Worksheet: Figuring Your Modified AGI for Deduction of Traditional IRA contributions		
1.	Enter your adjusted gross income (AGI) from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 36	
2.	Enter any Traditional IRA deduction from Form 1040, line 32; Form 1040A, line 17; or Form 1040NR, line 31	
3.	Enter any student loan interest deduction from Form 1040, line 33; Form 1040A, line 18; or Form 1040NR, line 32	
4.	Enter any tuition and fees deduction from Form 1040, line 34, or Form 1040A, line 19	
5.	Enter any domestic production activities deduction from Form 1040, line 35, or Form 1040NR, line 33	
6.	Enter any foreign earned income exclusion and/or housing exclusion from Form 2555, line 45, or Form 2555-EZ, line 18	
7.	Enter any foreign housing deduction from Form 2555, line 50	
8.	Enter any excludable savings bond interest from Form 8815, line 14	
9.	Enter any excluded employer-provided adoption benefits from Form 8839, line 30	
10.	Add lines 1 through 9. This is your Modified AGI for Traditional IRA purposes	

Source: www.irs.gov

***Important:** At the time these were printed, the line numbers used in the worksheet are as [illegible] above. P[illegible]se use the worksheet provided in the publication issued for 2010 to ensure that you are using the most c[illegible] version. S[illegible] the instructions for filing Form 1040, or IRS Publication 590 at www.irs.gov for spe[illegible]c details*

Q: My modified adjusted gross income (MAGI) falls within the phase-out range for determining whether a Traditional IRA contribution is deductible. How do I determine the deductible amount?

A: If you use tax-preparation software, it should calculate the [illegible] amou[illegible] that's [illegible] available, the following formula can be used.

[Highest dollar limit of MAGI range - MAGI] x [Contribution limit / { Highest [illegible] limit of MAGI [illegible] - Lowest dollar limit of MAGI range }]

For Example:

- Assume you are married and file a jo[illegible] return
- You are an active participant.
- Your spouse is not an active participant.
- Your joint MAGI is $94,000, which is within th[illegible] phase-o[illegible]ange for an active participant
- You are under the age of 5[illegible] [illegible]ich means the m[illegible]mum possible contribution is $5,000 for 2010

You would determine the maximum [illegible] contribution [illegible]ount as follows:

Highest dollar limit of phase-out range - MAGI	x	Contribution limit	/	Highest dollar limit of phase-out range	-	Lowest dollar limit of phase-out range
$100,000-$94,000		$5,000		$100,000		$80,000
$15,000		$5,000	/	$20,000		
$15,000	x	.2				
Answer =$3,750						
The deductible amount is $3,750						

Notes:

If the result is not divisible by $10, round the amount up to the nearest $10

If the deduction is between $0 and $200, you may round the amount up to $200.

Disclaimer: These Quick Reference Guides cannot be used as substitution for tax advice. Individuals must consult with their tax professionals for assistance with choosing an IRA. This guide is intended to be used by tax, legal and financial professionals with their clients. This information must not be construed as tax or legal advice and is not intended to be used for the purpose of avoiding tax and/or penalties that may be imposed by the IRS or any other regulatory body.

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