2011 IRA Contribution Reminder

It's not too late to make an IRA contribution for 2011. The deadline is the tax filing date which is Monday 4/16 this year because 4/15 falls on a Sunday however generally it is not a good idea to wait until last minute.

The IRA contribution limit for 2011 is $5,000 to any combination of IRAs or Roth IRAs as long as the total doesn't go above $5,000 unless you qualify for the catch-up contribution which is $1,000 if you are age 50 by year-end 2011. Anyone is eligible to make an IRA contribution; whether you can take a deduction or contribute to a Roth depends on several factors.

Phase-Out Range for IRA Deductibility

If you are considered an active participant in a company retirement plan, your deductibility for an IRA may be limited. If you are married filing jointly the phase-out for deductibility begins for adjusted gross income between $90,000-$110,000; above that there is no deduction. If you are a single or head of household filer the phase-out for deductibility begins for adjusted gross income between $56,000- $66,000; above that there is no deduction. If you are not covered by a company plan but your spouse is, the phase-out range for you is $169,000 - $179,000. If you file married-separate, your phase-out range is $0 - $10,000. Even though you may not participate in the company plan, you may be considered an "active participant" so it is important to verify before attempting to take a deduction. If you and your spouse (if applicable) are not covered by a company plan, then there is no income limitation to take a deduction for an IRA contribution. SEP and SIMPLE IRAs are considered company plans for these purposes.

Eligibility for Roth IRA Contribution

If you are married filing joint, the phase-out of eligibility to contribute to a Roth IRA is between $169,000 - $179,000 of adjusted gross income; above that you cannot make a Roth IRA contribution. For single or head of household filers, the phase-out for eligibility is $107,000- $122,000. If you file married-separate, your phase-out range is $0 - $10,000.

If you wish to make a deductible IRA contribution but make too much income to be eligible to take a deduction, consider a Roth IRA instead. If your income is above the threshold to make a Roth IRA contribution, you can still make a regular IRA contribution however that contribution will not be deductible. In such a case of a non-deductible IRA contribution, your money still grows tax deferred and your contributions when withdrawn are not taxable however the interest/gains will be taxable upon withdrawal.

These non-deductible contributions create "basis" in your IRA which when withdrawn come out tax-free in a pro-rata distribution relative to the amount of pre-tax money in your IRA. For example, if you have $100,000 in your IRA, $10,000 of which is after-tax basis, your ratio would be 10%. If you then took a distribution/conversion of say $25,000, $2,500 of that would be considered a return of your basis tax-free while the $7,500 would be taxable.

Since 2010 anyone regardless of income can convert and IRA to a Roth IRA. This means that you could make a non-deductible IRA contribution and convert it to a Roth thereby resulting in the same as making a Roth IRA contribution. This strategy only works however if you do not have other IRA funds because if you do, the pro-rata rules described above would apply. It is unknown if this loophole will be closed by congress or if they will allow anyone regardless of income to make a Roth IRA contribution; only time will tell.

If you have any questions on IRA contributions, don't hesitate to contact me to discuss your situation.

Sincerely,

Jeremy E. Portnoff

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