Contribute to an IRA Before the May 17th Deadline

Your financial advisor can help you navigate the ever-changing IRS rules

Taxpayers of all ages may be able to claim a deduction on their 2020 tax return for contributions made to their Individual Retirement Account made through May 17, 2021 (the U.S. Department of the Treasury is delaying the April 15th deadline to file and pay taxes until May 17th, giving individuals and businesses another month to file and then pay the government what they owe). And unlike in past years, there is no longer a maximum age for making IRA contributions.

Contributions to a traditional IRA are usually tax deductible, while distributions are generally taxable. There is still time to make contributions that count for a 2020 tax return, so long as the contributions are made by May 17, 2021. The good news is that taxpayers can file their return claiming a traditional IRA contribution before the contribution is actually made, but the contribution must then be made by the May due date of the return.

While contributions to a Roth IRA are not tax deductible, qualified distributions are tax-free. In addition, low- and moderate-income taxpayers making these contributions may also qualify for the Saver's Credit.

Contribution Limits from the IRS

Generally, eligible taxpayers can contribute up to $6,000 to an IRA for 2020. For someone who was 50 years of age or older at the end of 2020, the limit is increased to $7,000. The restrictions on taxpayers age 70 1/2 or older to make contributions to their IRA were removed in 2020.

Qualified contributions to one or more traditional IRAs are deductible up to the contribution limit or 100% of the taxpayer's compensation, whichever is less.

For 2020, if a taxpayer is covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is generally reduced depending on the taxpayer's modified adjusted gross income:

Single or head of household filers with income of $65,000 or less can take a full deduction up to the amount of their contribution limit. For incomes more than $65,000 but less than $75,000, there is a partial deduction and if $75,000 or more there is no deduction.

- Filers that are married filing jointly or a qualifying widow(er) with $104,000 or less of income, a full deduction up to the amount of the contribution limit is permitted. Filers with more than $104,000 but less than $124,000 can claim a partial deduction and if their income is at least $124,000, no deduction is available.

- For joint filers, where the spouse making the IRA contribution is not covered by a workplace plan, but their spouse **is** covered, a full deduction is available if their modified AGI is $196,000 or less. There's a partial deduction if their income is between $196,000 and $206,000 and no deduction if their income is $206,000 or more.

- Filers who are married filing separately and have an income of less than $10,000 can claim a partial deduction. If their income is at least $10,000, there is no deduction.

Roth IRAs

Even though contributions to Roth IRAs are not tax deductible, the maximum permitted amount of these contributions begins to phase out for taxpayers whose modified adjusted gross income is above a certain level:

- For filers who are married filing jointly or qualifying widow(er), that level is $196,000.
- For those who file as single, head of household, or married filing separately and did not live with their spouse at any time during the year, that level is $124,000.
- For filers who are married filing separately and lived with their spouse at any time during the year, any amount of modified AGI reduces their contribution limit.

The Saver's Credit

The Saver's Credit, also known as the Retirement Savings Contributions Credit, is often available to IRA contributors whose adjusted gross income falls below certain levels. In addition, beginning in 2018, designated beneficiaries may be eligible for a credit for contributions to their Achieving a Better Life Experience (ABLE) account.

What Should You Do?

Taxes are complicated enough and reading, learning and implementing tax strategies that are most appropriate for you can be a daunting task. Make sure you talk to your financial advisor in order to confirm that the tax decisions you make are consistent with your overall financial plan.

Source: irs.gov