



# Roth IRAs



# Calculating Roth IRA Contributions

*For 2017 and 2018*

**Questions & Answers**

## **Am I eligible to contribute to a Roth IRA?**

You are eligible if you satisfy the following two requirements: (1) you have earned income or compensation; and (2) you meet certain income limitations. Be aware that you are eligible to make contributions to a Roth IRA even though you are age 70½ or older, or you participate in a 401(k) plan or other employer sponsored pension plan. For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA.

## **May I contribute to a Roth IRA after age 70½?**

Yes, no age limit is imposed for Roth IRA contributions. You must have earned income for the year for which the contribution is made.

## **How much am I eligible to contribute to my Roth IRA for the 2017 and 2018 tax years if I will NOT be at least age 50 as of December 31?**

For 2017 you are eligible to contribute the lesser of 100% of your compensation, or \$5,500 as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

For 2018 you are also eligible to contribute the lesser of 100% of your compensation, or \$5,500 as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

## **How much am I eligible to contribute to my Roth IRA for the 2017 and 2018 tax years if I will be at least age 50 as of December 31?**

For 2017 you are eligible to contribute the lesser of 100% of your compensation, or \$6,500, as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

For 2018 you are also eligible to contribute the lesser of 100% of your compensation, or \$6,500, as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

# How is my allowable contribution to a Roth IRA calculated?

There is a special formula which must be used, as described in the "Roth IRA Contribution Chart." The formula is as follows:

$$\frac{\text{AGI-Threshold Level} - \text{Phaseout Level}}{\text{Threshold Level} - \text{Phaseout Level}} = \text{Ineligible Contribution \%}$$

<u>2017 Limits</u> <u>Tax-Filing Status</u>	<u>Threshold Level</u>	<u>Phaseout Level</u>
Single	\$118,000	\$133,000
Married/Joint Return	\$186,000	\$196,000
Married/Separate Return	\$0	\$10,000

<u>2018 Limits</u> <u>Tax-Filing Status</u>	<u>Threshold Level</u>	<u>Phaseout Level</u>
Single	\$120,000	\$135,000
Married/Joint Return	\$189,000	\$199,000
Married/Separate Return	\$0	\$10,000

The result is the percentage which cannot be contributed to the Roth IRA. You must then apply this percentage to the maximum contribution amount and then subtract this amount from the allowed contribution amount to get the amount which you can contribute.

**Example** — Bob and Lynn Brown have adjusted gross income of \$190,000 in 2017, and file a joint tax return. Both are 47 years old. They wish to make contributions to Roth IRAs. How much can each contribute to a Roth IRA? Using the formula for a married taxpayer, filing jointly:

- Step 1  $\$190,000 - \$186,000 = \$4,000$
- Step 2  $\$4,000 \div \$10,000 = .4$
- Step 3  $5,500 \times .4 = \$2,200$  *Ineligible Amount*
- (Note: \$5,500 is used, not \$10,000)
- Step 4  $\$5,500 - \$2,200 = \$3,300$  *Eligible Amount*

This formula must be calculated separately for each spouse, but is based on their combined income. Bob and Lynn could each contribute up to \$3,300 to a Roth IRA in 2017, for a total contribution amount of \$6,600.

## May my spouse or I use the spousal IRA contribution rules to make a contribution to our respective Roth IRA for 2017 and/or 2018?

Yes. One of you will be eligible to make a spousal contribution to a Roth IRA if the following rules are satisfied:

- You and your spouse must each have your own Roth IRA.
- You must be married as of the end of the tax year (i.e. December 31).
- You must file a joint income tax return.
- You must have compensation includible in gross income which is less than that of your spouse.

Your annual Roth IRA contribution will be limited to the lesser of (1) \$5,500/\$6,500, as applicable; or (2) the sum of your compensation which is includible in gross income for such year, plus the compensation of your spouse, as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA.

### **Roth IRA Contribution Chart for 2017**

Amount of AGI and Filing Status

#### **Single, Head of Household or Qualifying Widow(er)**

Below \$118,000	Entitled to full contribution amount
\$118,000-\$132,999.99	Entitled to prorated contribution amount—use special formula*
\$133,000 or over	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$118,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

#### **Married Filing Jointly**

Below \$186,000	Entitled to full contribution amount.
\$183,000-195,999.99	Entitled to prorated contribution amount—use special formula.*
\$196,000 or over	No contribution permissible.

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$186,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

#### **Married Filing Separate Returns**

\$0-\$9,999.99	Entitled to prorated contribution amount—use special formula*
\$10,000 or Over	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

## Roth IRA Contribution Chart for 2018

Amount of AGI and Filing Status

### Single, Head of Household or Qualifying Widow(er)

Below \$120,000	Entitled to full contribution amount
\$120,000-\$134,999.99	Entitled to prorated contribution amount—use special formula*
\$135,000 or over	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$120,000/\$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

### Married Filing Jointly

Below \$189,000	Entitled to full contribution amount.
\$189,000-198,999.99	Entitled to prorated contribution amount—use special formula.*
\$199,000 or over	No contribution permissible.

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$189,000/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

### Married Filing Separate Returns

\$0-\$9,999.99	Entitled to prorated contribution amount—use special formula*
\$10,000 or Over	No contribution permissible

\*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$0/\$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest \$10.00.

## To what extent may I be entitled to a tax credit for my IRA contributions?

You may be eligible for a tax credit for contributions you make to your traditional and/or Roth IRA. A formula is used to calculate your credit. Your credit may vary from \$1 to \$1,000, depending on the amount you contribute to your IRA, your filing status and your modified adjusted gross income. If you meet the following requirements for a given tax year, then you will qualify for this new credit:

1. Be at least 18 years of age as of December 31 of such year.
2. Not be a dependent on someone else's tax return
3. Not be a student as defined in Internal Revenue Code section 25B(c)
4. Have adjusted gross income under certain limits which are based on your filing status:

	<u>2017</u>	<u>2018</u>
Joint filers	\$61,000.01	\$61,500.01
Head-of-Household	\$45,750.01	\$46,125.01
All other filers	\$30,500.01	\$30,750.01

(including Married, filing separately)

5. Must not have received certain distributions which disqualify you from claiming the credit, or certain distributions which were made to your spouse.

Because of the complexity of this credit, you will want to review IRS Publication 590-A for a complete explanation.

### **Examples of determining Roth IRA Contributions.**

#### **Example #1.**

**Laura Rixman is a single taxpayer with wages of \$30,000, and a modified adjusted gross income of \$44,000. Laura is age 45. She has not made a contribution to her traditional IRA.**

***What is the maximum amount she may contribute to a Roth IRA for 2017?***

She is eligible to contribute \$5,500, since her modified adjusted gross income is less than \$118,000, she is younger than age 50, and she has not made a contribution to a traditional IRA.

#### **Example #2.**

**Martha Thomas is a single taxpayer with wages of \$90,000, and a modified adjusted gross income of \$136,000. Martha is age 48. She has not made a contribution to her traditional IRA.**

***What is the maximum amount she may contribute to a Roth IRA for 2017?***

Zero. She is not eligible to contribute any portion of the \$5,500, since her modified adjusted gross income is greater than \$133,000.

#### **Example #3.**

**Betsy Harms is a single taxpayer with wages of \$95,000, and a modified adjusted gross income of \$124,000. Betsy is age 72. She has not made a contribution to her traditional IRA.**

***What is the maximum amount she may contribute to a Roth IRA for 2017?***

Using the five steps described above, Betsy figures her reduced Roth IRA contribution to be \$3,900 as follows:

1. Her Modified AGI = \$124,000
2. Subtract the amount for her filing status (i.e. \$118,000) from her \$124,000 MAGI = \$6,000
3. Determine the ratio of what is not eligible to be contributed by dividing the \$6,000 by \$15,000 = .400

4. Multiply the  $.400 \times \$6,500 = \$2,600.00$ . Round this down to the nearest \$10, or \$2,600.
5. Permissible Roth IRA contribution = \$3,900.

**Example #4.**

**Keith and Shelli Johnson will file a joint return. They have modified adjusted gross income of \$88,000. Each has wages of more than \$6,500. Keith is age 48 and Shelli is age 51 in 2017. Neither has made a contribution to their traditional IRA.**

***What is the maximum amount which Keith and Shelli may contribute to a Roth IRA for 2017?***

Keith will be able to contribute \$5,500, since he is younger than age 50 in 2017. Shelli will be able to contribute \$6,500, since she will be age 50 or older in 2017. Their combined modified adjusted gross income is less than the \$186,000, and neither has made a contribution to a traditional IRA.

**Example #5.**

**The same facts as example #4, except they have a combined modified adjusted gross income of \$198,000.**

***What is the maximum amount which either Keith or Shelli may contribute to a Roth IRA for 2017?***

Zero. Each is ineligible to contribute any portion of the \$5,500 or \$6,500, since their combined modified adjusted gross income is greater than the \$196,000.

**Example #6.**

**The same facts as example #4, except they have a combined modified adjusted gross income of \$189,000.**

***What is the maximum amount which either Keith or Shelli may contribute to a Roth IRA for 2017?***

Using the five steps described above, Keith and Shelli figure their respective reduced Roth IRA contributions to be \$3,850 and \$4,550 per person as follows:

1. Their Modified AGI = \$189,000
2. Subtract the amount for their filing status (i.e. \$186,000) from their \$189,000 MAGI = \$3,000
3. Determine the ratio of what is not eligible to be contributed by dividing the \$3,000 by \$10,000 = .3000
4. Multiply the contribution limit by .3000  
Keith:  $\$5,500 \times .30 = \$1,650$  Ineligible Amount  
Shelli:  $\$6,500 \times .30 = \$1,950$  Ineligible Amount

5. Permissible contribution = contribution limit less amount from line 4.

Keith:  $\$5,500 - \$1,650 = \$3,850 = \text{Contribution}$

Shelli:  $\$6,500 - \$1,950 = \$4,550 = \text{Contribution}$

$\$8,400 = \text{Total Contributions}$

### **Example #7.**

**Same factual situations as example #4 except Keith and Shelli Johnson will be filing separate returns. Each has \\$5,000 of wage compensation. Keith has a modified adjusted gross income of  $\$5,000$  and Shelli has a modified adjusted gross income of  $\$90,000$ .**

#### ***What is the maximum amount which Keith may contribute to a Roth IRA for 2017?***

He may contribute  $\$2,750$ , calculated as follows:  $\$5,500$  less  $\$5,500 \times .50$ .

#### ***What is the maximum amount which Shelli may contribute to a Roth IRA for 2017?***

Zero. She is ineligible to contribute any portion of the  $\$5,500$ , since her modified adjusted gross income is greater than  $\$10,000$ .

**Summary.** The fact that certain earnings of a Roth IRA will never be taxed is extremely valuable. More individuals should be making Roth IRA contributions. The purpose of this brochure has been to discuss the contribution rules. Unlike with a traditional IRA, the amount you can contribute to a Roth IRA is based on your modified adjusted gross income, and if you are married, on your combined adjusted gross income. If your income for the year is too high, you are ineligible to make a Roth IRA contribution. You or your tax preparer will need to make this determination each year. Remember, you can make Roth IRA contributions regardless of the fact that you participate in a 401(k) plan or you are over age  $70\frac{1}{2}$ .

*The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.*