

A blue-toned marbled background with white, vein-like patterns.

IRAs & Roth IRAs

A blue-toned background featuring a faint image of the Statue of Liberty's head and crown, with white stars scattered across the scene.

The Special 50+ IRA Contribution Rules

Questions & Answers

What is the purpose of this brochure?

The purpose of this brochure is to explain the special contribution rules which apply to the traditional and Roth IRA for individuals age 50 or older. These individuals are allowed to make additional or catch-up contributions.

What is the purpose of the special 50+ contribution rules?

Individuals who are at least 50 years old may not have saved as much as they will need for retirement. Such individuals are now eligible, in certain situations, to make larger contributions to a traditional IRA, Roth IRA, SEP IRA, or SIMPLE IRA than those individuals who are younger than age 50. The effect of the new contribution rules is to allow them to make up some of the contributions which they did not make in previous years. Obviously, a larger yearly contribution allows the IRA balance to accumulate more quickly. This is most desirable when the number of years until retirement are few.

What is the legal authority for these 50+ contribution rules?

On August 17, 2006, President Bush signed into law The Pension Protection Act of 2006. Unless repealed by a future law change, it made permanent the increase in the IRA contribution limits as originally authorized by The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

What are the contribution limits for a person who is not age 50 or older?

| <u>Tax Year</u> | <u>Amount</u> |
|-----------------|---------------|
| 2008-2012 | \$5,000 |
| 2013-2016 | \$5,500 |

What are the contribution limits for a person who is age 50 or older?

| <u>Tax Year</u> | <u>Amount</u> |
|-----------------|-----------------------------|
| 2008-2012 | \$6,000 (\$5,000 + \$1,000) |
| 2013-2016 | \$6,500 (\$5,500 + \$1,000) |

When will I qualify for the larger contribution amount?

You qualify if you attain (or have attained) age 50 before the close of the applicable tax year (i.e. December 31).

Is there an aggregate contribution limit?

Yes. You must add together any contributions to a traditional IRA and a Roth IRA. For tax years 2015 and 2016, there is a combined limit of \$5,500 (if not at least age 50) or \$6,500 (if age 50 or over). For example, if, in 2015, you contribute \$1,000 to a traditional IRA and you are age 50 or over, then the most you may permissibly contribute to your Roth IRA will be \$5,500, since the overall limit is \$6,500.

What will I need to do to take advantage of the 50+ contribution limits?

You need to make an IRA contribution to your traditional IRA and/or Roth IRA.

How do I establish an IRA if I don't have one?

Please see us and we will assist you. Set forth below is a summary of the basic rules for a traditional IRA and a Roth IRA. You may want to establish one or both of these IRAs.

THE TRADITIONAL IRA

What is a traditional Individual Retirement Account (traditional IRA)?

A traditional IRA is a special tax-deferred savings account authorized by Internal Revenue Code section 408. It is a unique and simple way to encourage people to save money for retirement.

What are the tax benefits realized from a traditional IRA?

Generally, you may add up to \$6,500 for 2015 and 2016 of earned income to your IRA account and have it be either fully or partially tax deductible (see Deductibility Chart). If your contribution is tax deductible, then you receive two tax benefits: 1) an immediate tax savings because you will pay fewer taxes because of the deduction and 2) the earnings generated by the IRA funds are not taxed until distributed. If your contribution is not tax deductible, you still receive the tax benefit of tax deferral on the IRA's earnings. You may also qualify for a tax credit.

When do I have to establish the traditional IRA?

You have until the due date (without extensions) for filing your federal income tax return, normally April 15, to establish and fund your traditional IRA for the previous tax year.

Am I eligible to contribute to a traditional IRA?

You are eligible for a regular contribution if you do not reach age 70½ in the calendar year for which you wish to make the contribution, and you have compensation (income earned from performing material personal services). You may also qualify for a rollover or a transfer contribution.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or \$6,500, as reduced by any amount you contributed to your Roth IRA for the same tax year.

THE ROTH IRA

What is a Roth Individual Retirement Account (Roth IRA)?

A Roth IRA is a type of tax-preferred savings and investment account authorized by Internal Revenue Code section 408A. The Roth IRA allows you to accumulate assets for retirement purposes and for other purposes.

What are the tax benefits of a Roth IRA?

A Roth IRA will produce tax-free income if certain rules are met. You or your beneficiary(ies) will not be required to include in income, for income tax purposes, a distribution paid from a Roth IRA, whether it be the return of a contribution or the account's earnings, if certain rules are met. In some cases, you may be eligible to claim a tax credit because of your Roth IRA contribution.

What is the basic concept of a Roth IRA, and what are the associated tax benefits?

If you are eligible, you may make contributions, within limits, to the Roth IRA. You make these contributions with after-tax dollars. The earnings realized by the Roth IRA are not

IRA Contribution Deductibility Chart for 2015

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

| | |
|----------------------|---|
| Below \$61,001 | Entitled to full deduction |
| \$61,001-\$70,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$71,000 or over | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$61,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

| | |
|-------------------------|---|
| Below \$98,001 | Entitled to full deduction |
| \$98,001 - \$117,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$118,000 or Over | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$98,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

| | |
|-----------------------|---|
| Below \$98,001 | Fully Deductible |
| \$98,001-\$117,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$118,000 or over | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$98,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

| | |
|------------------------|---|
| Below \$183,001 | Fully Deductible |
| \$183,001-\$192,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$193,000 or over | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$193,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

| | |
|------------------|---|
| Below \$10,000 | Entitled to prorated deduction amount - use special formula** |
| \$10,000 or Over | No deduction 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 deduct.*

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

IRA Contribution Deductibility Chart for 2016

(for participants and/or spouses in
employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

| | |
|------------------------|---|
| Below \$61,000 or less | Entitled to full deduction |
| \$61,001-\$70,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$71,000 or more | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$61,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

| | |
|-------------------------|---|
| Below \$98,000 or less | Entitled to full deduction |
| \$98,001 - \$117,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$118,000 or more | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$98,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

| | |
|------------------------|---|
| Below \$98,000 or less | Fully Deductible |
| \$98,001-\$117,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$118,000 or more | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$98,000/\$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

| | |
|-------------------------|---|
| Below \$184,000 or less | Fully Deductible |
| \$184,001-\$193,999.99 | Entitled to prorated deduction amount - use special formula** |
| \$194,000 or more | No deduction permissible |

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$194,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

| | |
|------------------|---|
| Below \$10,000 | Entitled to prorated deduction amount - use special formula** |
| \$10,000 or more | No deduction 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 deduct.*

*Any amount determined under this formula which is not a multiple of \$10 shall be rounded to the next lowest \$10.

However, an IRA accountholder will be able to deduct a minimum of \$200 as long as his or her AGI is not above the phase-out range (base amount plus \$10,000).

presently taxed, and if certain distribution rules are met, will never be taxed. For example, if you are age 42 on January 1, 2015, and you contribute \$1,000 a year for 34 years (2015-2048) to a Roth IRA, then your contributions of \$34,000 would accumulate to \$110,434.88 as of December 31, 2048, if an earnings rate of 6% compounded annually was realized. You and your beneficiary(ies) would, of course, not pay any federal income tax on the contribution amount of \$34,000 when distributed, because you cannot claim a tax deduction for your contributions. However, the great tax benefit to be realized from a Roth IRA is that you and your beneficiary(ies) will not have to include in your taxable income the earnings of \$76,434.88 (and subsequent future earnings) when distributed to you or your beneficiary(ies) as long as the distributions are qualified distributions as defined later.

THE CONTRIBUTION RULES

When do I have to establish the Roth IRA?

You have until the due date (without extensions) for filing your federal income tax return, normally April 15, to establish and fund your Roth IRA for the previous tax year.

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. For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA and/or a Coverdell Education Savings Account.

May I contribute to a Roth IRA after age 70½?

Yes, no age limit is imposed for Roth IRA contributions. The only requirement is that 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 2015 and 2016 tax years if I will be at least age 50 as of December 31?

For 2015 and 2016 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 limi-

tation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

What are the income limits for eligibility purposes?

If your income (and your spouse's income, if you are married) is too high, you will not be eligible to make a contribution to a Roth IRA.

THE CONVERSION RULES

Why convert my traditional IRA to a Roth IRA?

The income earned by the funds within a Roth IRA will be tax free to you or your beneficiaries when withdrawn as a qualified distribution. The income earned within your traditional IRA is always taxable when withdrawn.

Example: You have \$10,000 in your traditional IRA as of January 2015. You can certainly leave the funds within your

Roth IRA Contribution Chart for 2015

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

| | |
|------------------------|---|
| Below \$116,000 | Entitled to full contribution amount |
| \$116,000-\$130,999.99 | Entitled to prorated contribution amount—use special formula* |
| \$131,000 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 \$116,000/\$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 \$183,000 | Entitled to full contribution amount. |
| \$183,000-193,999.99 | Entitled to prorated contribution amount—use special formula.* |
| \$193,000 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 \$183,000/\$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.

traditional IRA and allow them to grow. Assume this \$10,000 grows in value to \$50,000 over the next 18 years.

The \$40,000 of income will be taxable whenever it is withdrawn from a traditional IRA. However, if you had converted or moved this \$10,000 to a Roth IRA, the \$40,000 of income will never be taxed if the funds are withdrawn as a qualified distribution.

No matter how great the income or how wealthy you are, it will be tax free if the distribution from the Roth IRA is a qualified distribution. As discussed below, you are generally required to pay income tax with respect to the \$10,000 for the year the conversion occurs.

How do I convert my traditional IRA?

You can convert amounts from your traditional IRA to a Roth IRA by using any of the following three methods. The first method is the standard rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days of the distribution. The second method is a trustee-to-trustee transfer. If permissible,

Roth IRA Contribution Chart for 2016

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

| | |
|------------------------|---|
| Below \$117,000 | Entitled to full contribution amount |
| \$117,000-\$131,999.99 | Entitled to prorated contribution amount—use special formula* |
| \$132,000 or more | No contribution permissible |

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$117,000/\$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 \$184,000 | Entitled to full contribution amount. |
| \$184,000-193,999.99 | Entitled to prorated contribution amount—use special formula.* |
| \$194,000 or more | No contribution permissible. |

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of \$184,000/\$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 more | 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.

you may direct the custodian/trustee of your traditional IRA to transfer an amount from the traditional IRA to the custodian/trustee of your Roth IRA. The third method is an internal movement. You direct the custodian/trustee of your traditional IRA to transfer an amount from your traditional IRA to your Roth IRA.

What income tax will I owe because of a conversion made in 2015 or subsequent years?

You must include in your gross income (at the applicable marginal tax rate) distributions from a traditional IRA that you would have had to include in income if you had not converted them into a Roth IRA.

What distributions from a Roth IRA will be tax free?

“Qualified distributions” will be tax free. To be a qualified distribution, the distribution must occur after you have met the five-year holding requirement, and the distribution is made to you (1) after you have attained age 59½, (2) after you have become disabled, (3) because of a first-time home purchase, or (4) to your beneficiary after your death.

Will I owe the 10% additional tax for my conversion if I am under the age of 59½?

No.

How do I establish my traditional IRA and/or Roth IRA?

Just come in and talk with us.

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.