

# IRAs

## Understanding if You Qualify to Make a Deductible IRA Contribution

*2007 and 2008*

Questions & Answers

## Purpose

The approach of the tax law is to allow you (i.e. any taxpayer) to deduct your IRA contribution only if you meet certain rules. These rules depend upon whether or not you are covered by a retirement plan at work and your modified adjusted gross income.

Many individuals incorrectly believe they are ineligible to claim a tax deduction for their IRA contribution. Law changes the past few years have increased various income limits, so you may find yourself able to claim a tax deduction for your IRA contribution even though you may have been ineligible a few years ago.

This brochure explains how you determine what portion, if any, of your IRA contribution to a traditional IRA may be allowed as a tax deduction for federal income tax purposes for 2007 and 2008.

## How do I know if I am covered by a retirement plan at work?

A "retirement plan at work" is a plan set up by your employer for your benefit and the benefit of other employees. If you are not sure whether you are covered by a retirement plan at work, your employer should be able to tell you. As a general rule, you are considered covered for a given year only if you or your employer makes a contribution on your behalf.

**Form W-2**—The Form W-2, Wage and Tax Statement, that you receive will have a check in box 13, "Retirement Plan" if you are covered by a plan of that employer.

## What types of plans constitute an employer retirement plan?

For purposes of the IRA deduction rules, an employer retirement plan is any of the following:

- A qualified (meets Internal Revenue Code requirements) pension, profit sharing, stock bonus, money purchase pension plan, etc. (including Keogh plans).
- A 401(k) plan (generally an arrangement included in a profit sharing or stock bonus plan that allows you to choose to take part of your compensation from your employer in cash or have your employer pay it into the plan).
- A union plan (a qualified stock bonus, pension, or profit sharing plan created by a collective bargaining agreement between employee representatives and one or more employers).