What is the purpose of this brochure?

It explains the basic tax rules for traditional IRAs and Roth IRAs.

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 $6,000 or $7,000 as applicable of earned income to your IRA account for 2019 and 2020 and have it be either fully or partially tax deductible. 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?

For 2019, 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.

For 2020 you are eligible for a regular contribution if 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 NOT be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or $6,000 for 2019 and 2020, as reduced by any amount you contributed to your Roth IRA.

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 $7,000 for 2019 and 2020, as reduced by any amount you contributed to your Roth IRA for the same tax year.

May I contribute to my traditional IRA and also my Roth IRA for the same year?

Yes, but your aggregate traditional IRA and Roth IRA contributions are subject to the applicable contribution limit for such year. For example, if your contribution limit for 2019 is $6,000, then the sum of your traditional IRA contributions and your Roth IRA contributions must be $6,000 or less.

When might I or my spouse be eligible to use the spousal IRA contribution rules?

If your compensation is less than the $6,000 or $7,000 limit, as applicable, then you are permitted to use your spouse's compensation when making your Roth IRA contribution. This generally means both of you will be able to contribute $6,000 or $7,000 as applicable. For example, you have compensation of $3,500 or $0.00 and your spouse has compensation of $42,000. You are both age 54. You are eligible to contribute $7,000 to your Roth IRA. Your spouse is also eligible to contribute $7,000. The following rules must be satisfied:

- You and your spouse must each have your own traditional 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.

The combined contribution by both spouses must equal or be less than their combined eligible compensation.

To what extent will I be entitled to a tax deduction for my IRA contribution?

The answer depends upon your filing status, whether or not you and/or your spouse is covered by an employer-sponsored retirement plan at work, and your modified adjusted gross income (AGI).

If you are single and you are not covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are married and neither you nor your spouse is covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are covered under an employer-sponsored retirement plan and your filing status is single or head of household, then you are entitled to a deduction as follows. A full deduction as long as your MAGI is $64,000 or less for 2019. A partial deduction for 2019, since the maximum allowable contribution is ratably phased out, if you have modified adjusted gross income between $64,000 and $74,000. You are not allowed any deduction if your MAGI for 2019 is $74,000 or more.

A full deduction applies as long as your MAGI is $65,000 or less for 2020. A partial deduction for 2020, since the maximum allowable contribution is ratably phased out, if you have modified adjusted gross income between $65,000 and $75,000. You are not allowed any deduction if your MAGI for 2020 is $75,000 or more.

If you are covered under an employer-sponsored retirement plan and your filing status is married, filing jointly or as a qualifying widower, then you are entitled to a deduction as follows. A full deduction as long as your MAGI is $103,000 or less for 2019, and $104,000 or less for 2020. A partial deduction for 2019, since the maximum allowable contribution is ratably phased out, if you have modified adjusted gross income between $103,000 and $123,000. A partial deduction for 2020, since the maximum allowable contribution is ratably phased out, if you have modified adjusted gross income between $104,000 and $124,000. You are not allowed any deduction if your MAGI for 2019 is $123,000 or more, or $124,000 or more for 2020.

If you are <u>not</u> covered under an employer-sponsored retirement plan, but your spouse is, and your filing status is married, filing jointly, then you may be entitled to a full deduction, partial deduction, or in some cases, no deduction. Your deduction depends upon a special income restriction limit. For 2019, the maximum allowable contribution is ratably phased out if you and your spouse's income is between $193,000 and $203,000. No deduction is allowed if you and your spouse's MAGI is $203,000 or greater. A full deduction is allowed for 2019 if your MAGI is less than $193,000. For 2020, the maximum allowable contribution is ratably phased out if you and your spouse's income is between $196,000 and $206,000. No deduction is allowed if you and your spouse's MAGI is $206,000 or greater. A full deduction for 2020 is allowed if your MAGI is less than $196,000.

If you are married and your filing status is married, filing separately, then you will be entitled to only a partial deduction, or in some cases, no deduction. For 2019 and 2020, the maximum allowable contribution is phased out if you have modified adjusted gross income between $0 and $10,000. No deduction is allowed if your MAGI is $10,000 or greater.

May I make a nondeductible contribution to a traditional IRA and then convert it?

Yes. You may make nondeductible contributions when you are unable or unwilling to claim a tax deduction. This can be extremely beneficial if you are a person who is ineligible to make an annual Roth IRA contribution because your income exceeds the Roth IRA income limits and you presently have no taxable traditional IRA funds including SEP-IRA or SIMPLE-IRA funds. Once you have made the nondeductible contribution, you may then convert such funds to a Roth IRA. This two step process is the equivalent of making an annual Roth IRA contribution.

What happens to my IRA when I die?

The funds will belong to the individual(s) or entities you have designated to be the beneficiary(ies) of your IRA. There are rules requiring your beneficiary(ies) to withdraw certain minimum distributions by various deadlines. If such distributions do not occur by the appropriate deadline, then your beneficiary will owe the 50% excise tax. The rules which apply to a beneficiary will not apply to your spouse if he or she is your sole primary beneficiary and he or she elects to treat your IRA as his or her own IRA. Even if your spouse is not your sole beneficiary, your spouse may withdraw funds from your IRA and roll it over into his or her IRA. He or she may not roll over any required distribution.

In general, if you die after December 31, 2019, your Non-spouse beneficiaries who are more than 10 years younger than you must close the inherited IRA by December 31st of the year containing the 10th anniversary of your death. Certain beneficiaries will have the right to use the life distribution rule rather than the 10-year rule. The required distribution rules for beneficiaries are complex and beyond the scope of this general brochure.

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 wealth transfer purposes.

What are the tax benefits realized from 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 presently taxed, and if certain distribution rules are met, will never be taxed. For example, if you are age 42 on January 1, 2019, and you contribute $1,000 a year for 34 years (2019-2052) to a Roth IRA, then your contributions of $34,000 would accumulate to $110,434.88 as of December 31, 2052, if an earnings rate of 6% compounded annually were realized. You and your beneficiary(ies) would 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.

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 must 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. For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA.

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. For 2019, if you are single, you become ineligible when your adjusted gross income is $137,000 or greater. If you are married, and file a joint return, you become ineligible when the combined adjusted gross income (AGI) of you and your spouse is $203,000 or greater. If you are married and file a separate return, you become ineligible when your adjusted gross income is $10,000 or greater.

For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA.

How much am I eligible to contribute to my Roth IRA for the 2019 and 2020 tax years if I will be at least age 50 as of December 31?

For 2019 and 2020 you are also eligible to contribute the lesser of 100% of your compensation, or $7,000, 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:

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

2019 Limits Tax-Filing Status	Threshold Level	Phaseout Level
Single	$122,000	$137,000
Married/Joint Return	$193,000	$203,000
Married/Separate Return	$0	$10,000

2020 Limits Tax-Filing Status	Threshold Level	Phaseout Level
Single	$124,000	$139,000
Married/Joint Return	$196,000	$206,000
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 $197,000 in 2019, 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 $197,000 - $193,000/$10,000

Step 2 $4,000 ÷ $10,000 = .4

Step 3 6,000 X .4 = $2,400 *Ineligible Amount*

(Note: $6,000 is used, not $12,000)

Step 4 $6,000 - $2,400 = $3,600 *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 $3,600 to a Roth IRA in 2019, for a total contribution amount of $7,200.

May I contribute to a Roth IRA after I have attained age 70½?

Yes, there is no age limit requirement for making contributions to a Roth IRA.

May I contribute to a Roth IRA even though I participate in a 401(k) plan?

Yes, you are eligible to make Roth IRA contributions regardless if you make elective deferral contributions as a 401(k) plan participant.

Why might I want to convert my traditional IRA to a Roth IRA?

You may find it advantageous to incur the tax consequences of a present distribution in order to qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA.

To illustrate, Jane Roe has a traditional IRA with a balance of $20,000. Over the next 25 years it is assumed the $20,000 will increase in value to $80,000. If she converts $20,000 in 2019 and she pays the associated $5,000 tax bill for 2019 as her marginal tax rate is 25%, then neither she nor her beneficiary will pay any tax on the $80,000 when it is withdrawn in subsequent years. If she does not convert the $20,000, then she or her beneficiary must include in income and pay tax on the $80,000 as it is withdrawn.

May I roll over or convert part or all of my traditional IRA to a Roth IRA?

A conversion is accomplished by having funds distributed from a traditional IRA and rolling them over to a Roth IRA within 60 days. This can be done internally at your financial institution, or by transfer of the traditional IRA funds at one institution to a Roth IRA at another institution.

In 2010, the conversion requirements were repealed, and any individual, regardless of income or filing status, is eligible to convert funds from a traditional IRA to a Roth IRA.

Whatever conversion method is used, the custodian/trustee of the traditional IRA will prepare a Form 1099-R to report the distribution, and the custodian/trustee of the Roth IRA will prepare a 5498 to report the conversion.

What are the tax consequences of receiving a distribution from a traditional IRA and "converting" the distribution to a Roth IRA?

In general, the amount distributed to you from your traditional IRA will be included in your income in the year of receipt and will be subject to income taxes for that year. The 10% premature distribution excise tax, however, will not be owed even if you are younger than age 59½.

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

You may or may not qualify for the tax credit called the Saver's Tax Credit. The intent is to give an additional tax benefit to a single person whose MAGI is less than $32,000 or a married couple whose joint MAGI is less than $64,000. These amounts are adjusted for inflation each year.

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 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:*

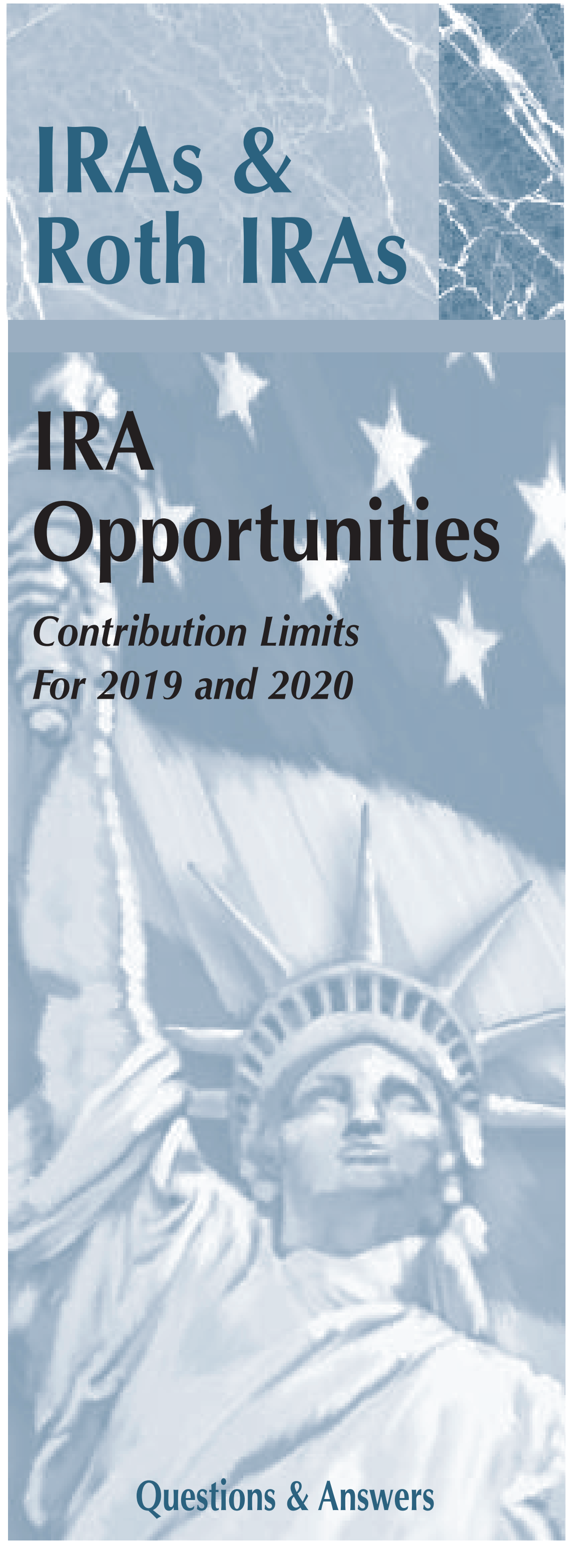
	2019	2020
Joint filers	$64,000	$65,000
Head-of-Household	$48,000	$48,750
All other filers	$32,000	$32,500

(including Married, filing separately, and single)

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.

What happens to my Roth IRA after I die?

If your spouse is your beneficiary, most likely he or she will elect to treat your Roth IRA as his or her own Roth IRA since he or she is not required to take a distribution while alive. However, if you have designated one or more nonspouse beneficiaries, then certain beneficiaries will continue to be able to use the life distribution rule, but many beneficiaries will be required to close the inherited Roth IRA by December 31 of the year containing the tenth (10th) anniversary of your death. Only an eligible designated beneficiary is entitled to use the life distribution rule. The following are eligible designated beneficiaries: a beneficiary who is disabled, a beneficiary who is chronically ill, certain trusts, a beneficiary who is not more than 10 years younger than you and your child who has not reached the age of majority. Once the child reaches the age of majority, she or he will have 10 years in which to close the inherited Roth IRA. As long as the 5-year Roth IRA taxation rule has been met by either you or your beneficiary, a distribution to your beneficiary is tax-free.



IRAs & Roth IRAs

IRA Opportunities

Contribution Limits For 2019 and 2020

Questions & Answers