IRAs & Roth IRAs

Spousal IRA Contributions

Questions & Answers

Purpose. This brochure explains the special rules and considerations applying to spousal contributions made to a traditional IRA and/or Roth IRA.

What is a spousal contribution?

It is a special type of regular or annual contribution. The federal tax laws require that a person must have compensation in order to make an annual IRA contribution. However, a spousal contribution is an exception to this rule. A spousal contribution is an IRA contribution made by a married individual or his or her spouse on his or her behalf, but the basis for this contribution is his or her spouse's compensation along with his or her own compensation.

In a broader sense, spousal IRA contributions are those IRA contributions made by a couple to their respective IRAs in such a way as will maximize their joint tax benefits.

Must I be married to make a spousal IRA contribution?

Yes. You must be married as of December 31 of the year for which the contribution is made.

Must my spouse make the spousal IRA contribution to my IRA?

No. The basic legal concept used to be that the compensated spouse made a spousal contribution on behalf of his or her non-working spouse. The legal concept now is, the non-working or lower-income spouse makes a contribution for himself or herself based on the spouse's compensation, along with his or her own compensation.

Must I designate my spouse as my beneficiary of this IRA?

The general answer is "no." Unlike many types of employer-sponsored pension plans, you are not required by federal law to designate your spouse as your IRA beneficiary. State laws govern however, and in those states with community property laws or marital property laws, your spouse does have a property right to a portion of your IRA.

What constitutes compensation (i.e. earned income) so an IRA contribution can be made?

Earned income means wages, salary, professional fees, and other amounts received in exchange for personal services rendered. It includes such things as bonuses, commissions, tips, self-employment and taxable alimony. It also includes non-taxable military combat pay. It does not include interest, dividends, pension payments, deferred payments, social security payments, or rental payments.

What are the maximum contribution limits for 2017 and 2018?

$5,500 for 2017 and 2018 if you are not age 50 as of December 31.

$6,500 for 2017 and 2018 if you are age 50 or older as of December 31.

May my spouse or I use the spousal IRA contribution rules to make a contribution to our respective traditional IRAs?

Yes. If either you (or your spouse) has compensation less than the $5,500/$6,500 for 2017 and 2018, then you (or your spouse) are allowed to make a contribution for such year(s) based on the other's compensation. You (or your spouse) will be eligible to make a spousal contribution to a traditional IRA if the following rules are satisfied:

- You and your spouse must each have your own 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 traditional 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. In addition, when your Roth IRA contribution is aggregated with your traditional IRA contributions and with the contributions of your spouse, the maximum permissible amount for all IRAs will be the lesser of $11,000, $12,000 or $13,000 as applicable, or 100% of your combined incomes.

Do the spousal contribution rules allow one spouse to make a larger contribution?

Example. Jane Thomas has compensation of $35,000 for 2017 and her husband David has compensation $2,500. Jane is age 53 and David is age 48. Their combined adjusted gross income will be $84,000 as David will receive dividend income of $46,500.

For 2017, Jane is eligible to contribute $6,500 to her traditional IRA, $6,500 to her Roth IRA or she may split the $6,500 between her two IRAs.

For 2017, David is eligible to contribute $5,500 to his traditional IRA, $5,500 to his Roth IRA or he may split the $5,500 between his two IRAs. Had he not been married, his contribution limit would be $2,500. David is allowed to use Jane's income in excess of $6,500 to make a full $5,500 IRA contribution(s) for himself. Using the spousal contribution rule is limited to the married person (David) with the lesser compensation.

Can a spousal contribution be made to either a traditional IRA or a Roth IRA?

Yes. You may make a spousal IRA contribution to one or more traditional IRAs and/or Roth IRAs.

May I make a spousal contribution one year, and a regular contribution the next year?

Yes.

What is my deadline for making a spousal IRA contribution?

You have until the due date for filing your federal tax return, normally April 15, to establish and fund your IRA for the previous tax year. Obtaining an extension for your tax-filing deadline does not extend the IRA contribution deadline. It is advantageous for you to fund your IRA early in the year to let the tax-deferred earnings go to work for you right away.

May I make a spousal contribution to my traditional IRA if my compensated spouse is over age 70½ but I am younger than 70½?

Yes, but your spouse must have qualifying compensation.

How much of my IRA contributions to a traditional IRA will be deductible?

The answer depends upon your tax-filing status, the tax year, whether or not you or your spouse is covered by an employer-sponsored retirement plan at work, and your combined modified adjusted gross income (AGI). The amount you can deduct, in general, is the applicable contribution limit as reduced by the amount you cannot deduct. See the IRA contribution deductibility chart.

Opportunity Missed by Many Married Couples

If you are a married person who is not covered by a retirement plan at work, you may well be entitled to deduct your IRA contribution even though your spouse is covered by a retirement plan. See the "Married - joint return, but only your spouse is covered" section of the chart. For example, your spouse earns $77,000 and participates in a 401(k) plan, and you earn $61,000, but you are <u>not</u> covered by any pension plan. You are age 56. If you contribute $6,500 in 2017 and $6,500 in 2018 to your IRA, then you will be able to claim the full amount as a deduction on your joint returns. Many individuals mistakenly believe that he or she is ineligible to make a deductible IRA contribution when his or her spouse participates in a 401(k) plan.

THE ROTH IRA

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.

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 compensation for the year for which the contribution is made.

What is my contribution limit with respect to a spousal contribution to a Roth IRA?

As with the traditional IRA, the contribution limit for a Roth IRA for 2017 and 2018 is $5,500/ $6,500.

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 2017, if you are single, you become ineligible when your adjusted gross income is $133,000 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 $196,000 or greater. If you are married and file a separate return, you become ineligible when your adjusted gross income is $10,000 or greater.

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:

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

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

2018 Limits Tax-Filing Status	Threshold Level	Phaseout Level
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/$10,000
Step 2 $4,000 ÷ $10,000 = .4
Step 3 5,500 X .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.

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.

IRA Contribution Deductibility Chart for 2017

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

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

Single

Below $62,000 or less	Entitled to full deduction
$62,001-$71,999.99	Entitled to prorated deduction amount - use special formula**
$72,000 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 $62,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widow

Below $99,000 or less	Entitled to full deduction
$99,001 - $118,999.99	Entitled to prorated deduction amount - use special formula**
$119,000 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 $99,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered or qualifying widow

Below $99,000 or less	Fully Deductible
$99,001-$117,999.99	Entitled to prorated deduction amount - use special formula**
$119,000 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 $99,000/$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 $186,000 or less	Fully Deductible
$186,001-$195,999.99	Entitled to prorated deduction amount - use special formula**
$186,000 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 $186,000/$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).

IRA Contribution Deductibility Chart for 2018

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

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

Single or Head of Household

Below $63,000 or less	Entitled to full deduction
$63,001-$72,999.99	Entitled to prorated deduction amount - use special formula**
$73,000 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 $63,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widow

Below $101,000 or less	Entitled to full deduction
$101,001 - $120,999.99	Entitled to prorated deduction amount - use special formula**
$121,000 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 $121,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered or qualifying widow

Below $101,000 or less	Fully Deductible
$101,001-$120,999.99	Entitled to prorated deduction amount - use special formula**
$121,000 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 $121,000/$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 $189,000 or less	Fully Deductible
$189,001-$198,999.99	Entitled to prorated deduction amount - use special formula**
$189,000 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 $189,000/$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).