

Individual Retirement Accounts (IRAs)

MontGuide 199807



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August 2009

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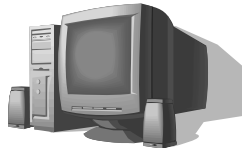
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Individual Retirement Accounts



- www.montana.edu
- Search:
 - Individual Retirement Accounts

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Purpose of IRAs

- Encourage Americans to save for retirement



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Who can contribute

- Under age 70½
- Earned Income



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Earned Income

- Wages, salaries, tips, & commissions
- Taxable alimony
- Professional fees



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Earned Income

- Bonuses
- Other compensation for personal services



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Unearned Income

- Earnings & profits from property-No IRA
 - Rental
 - Interest income
 - Dividend income



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Unearned Income

- Not eligible for IRA:
 - Social Security
 - Pension or annuity income



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Contribution Limit

- Tax deductible contribution (2009)
 - Up to \$5,000 annually



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Catch-up Contribution

- Age 50 and over:
 - 1,000 annually



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Contribution limits

- 2010 and beyond
 - Indexed for inflation



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IRA Contributions

- January 1 of tax year – April 15 of the year following tax year



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What if spouse does not have earned income?



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Spousal IRAs

- Spouse with earned income, may make:
 - Contributions to spouse's IRA who has no income
 - Joint-tax return must be filed



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Federal Law

- IRA must be managed by custodian or trustee



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Custodian or Trustee

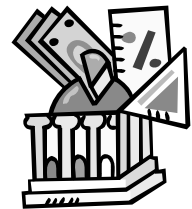
- Banks & Credit Unions
- Insurance Companies



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Custodian or Trustee

- Mutual Fund Companies
- Investment Brokers



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Comparing IRAs



- www.montana.edu
- Search:
 - Shopping for an Individual Retirement Accounts

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Kinds of IRAs

- Traditional
- Roth



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Traditional IRA



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Traditional IRA

- Two types:
 1. Tax Deductible
 2. Nondeductible

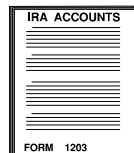


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Tax Deductible?

Depends on:

1. Active participant in employer retirement plan
2. Income level
3. Filing status



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Tax Deductible?

- If *not* active participant in employer retirement plan:
 - IRA is *fully tax deductible*
 - (Regardless of income)



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Partial Tax Deduction

- IRS Publication 590
"Individual Retirement Arrangements"
- www.irs.gov



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Earnings in Traditional IRA

- Accumulated Earnings
 - Tax-deferred



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Tax-Deferred



- Deposit in IRA annually:
\$2,000 for 10 yrs
- Balance \$25,156
 - Grows tax-deferred
 - Not included as income on state & federal taxes

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IRA Withdrawal

- Money withdrawn:
 - Added as income when computing taxes for year withdrawn



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Example: Bruce

- Income \$ 44,000
- IRA Withdrawal + \$ 15,000
- Taxable Income \$59,000



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Nondeductible IRA

- Individuals covered by an employer retirement plan
- Not eligible for deductible Traditional IRA



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Nondeductible IRA

- **Contribute tax-paid dollars**
 - Taxes on *earnings* deferred until withdrawal



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Nondeductible IRA

- **Attach form 8606 to tax returns**



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Recommendation:

- **Separate accounts:**
 - Tax-deductible
 - Nondeductible



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Roth IRA



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Roth IRA



- **Not tax deductible**
- **Earnings**
 - Tax-free

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Contribution Limit

- **Tax Deductible contribution (2009)**
 - Up to \$5,000 annually



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Catch-up Contribution

- Age 50 and over:
 - \$1,000 annually



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Contribution limits

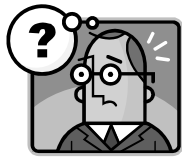
- After 2010 and beyond indexed for inflation



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Who can contribute

- Under age 59½



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Limits for Roth IRA Contributions

	Eligible for Full Deduction	Eligible for Partial Deduction
Single	\$105,000 or less	\$105,001 to \$120,000
Married, filing jointly	\$166,000 or less	\$166,001 to \$176,000

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Example: Gary

- Deposited \$3,000 annually in Roth IRA (\$60,000 in deposits)
 - 2029 balance is \$80,611
 - Paid taxes on each \$3,000 contribution



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Example: Gary

- Earnings \$20,611 are tax-free
 - \$80,611 - \$60,000 = \$20,611



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Five-year test



- Roth IRA Withdrawal:
 - Must be 5 yrs after the 1st year contributions were made

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Early Withdrawals

- Under age 59½:
 - 10% penalty



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Avoid 10% Penalty

One of the following conditions must apply:

1. Over age 59½
2. Has become disabled



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Avoid 10% Penalty

3. Using funds for first-time home purchase
4. Deceased and distributed to beneficiary



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Avoid 10% Penalty

5. Qualified Higher Education Expenses

- See IRS Publication 590
- www.irs.gov



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Avoid 10% Penalty

6. Payment of unreimbursed medical expenses

- Greater than 7.5% of adjusted gross income



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Avoid 10% Penalty

7. Payment of qualified health insurance premiums



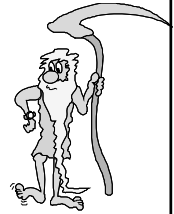
- While unemployed
 - 12 or more weeks

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Avoid 10% Penalty

8. Withdrawals are made based on life expectancies of:

- Owner or
- Beneficiary



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Divorce



- Can be directly transferred tax-free to:
 - IRA owned by former spouse
 - Separate IRA established

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Rollover IRA



- Taxation on withdrawals can be prevented:
 - Transferring funds to another type of IRA

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Rollover IRA into Work Retirement Plan

• Qualified Plan

- 403(b)
- 457



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Rollover retirement plan to IRA

- Make distributions directly to IRA custodian otherwise 20% withheld



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Acknowledgements

- Montana Credit Union Network
- Montana Bankers Association
- Montana Society of Certified Public Accountants



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QUESTIONS?



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