Don’t Overlook the Spousal IRA

Article Highlights:

- Non-working spouses can contribute to an IRA based upon the working spouse’s earned income.
- The combined contributions of both spouses cannot exceed the combined earned income.
- Each spouse’s contribution is limited to a maximum of $5,500 ($6,500 if over age 49).

One frequently overlooked tax benefit is the “spousal IRA.” Generally, IRA contributions are only allowed for taxpayers who have compensation (the term “compensation” includes wages, tips, bonuses, professional fees, commissions, alimony received, and net income from self-employment). Spousal IRAs are the exception to that rule and allow a non-working spouse who files a joint return to contribute to his or her own IRA, otherwise known as a spousal IRA.

The maximum annual amount that a non-working spouse can contribute is the same as the limit for a working spouse, which is $5,500 for the years 2013 and 2014. A non-working spouse who is age 50 or older can also make “catch-up” contributions (limited to $1,000 for 2013 and 2014), raising the overall yearly contribution limit to $6,500. These limits apply provided that the couple together has compensation equal to or greater than their combined IRA contributions.

> ***Example:*** *Tony is employed and his W-2 for 2013 is $100,000. His wife, Rosa, age 45, has a small income from a part-time job totaling $900. Since her own compensation is less than the contribution limits for the year, she can base her contribution on their combined compensation of $100,900. Thus, Rosa can contribute up to $5,500 to an IRA for 2013.*

The contributions for both spouses can be made either to a Traditional or Roth IRA or split between them, as long as the combined contributions don’t exceed the annual contribution limit. **Caution:** The deductibility of the Traditional IRA and the ability to make a Roth IRA contribution are generally based on the taxpayer’s income:

- **Traditional IRAs** – There is no income limit restricting contributions to a Traditional IRA. However, if the working spouse is an active participant in any other qualified retirement plan, a <u>tax-deductible</u> contribution can be made to the IRA of the non-participant spouse only if the couple’s adjusted gross income (AGI) doesn’t exceed $178,000 for 2013 and $181,000 for 2014. This limit is phased out for AGI between $178,000 and $188,000 for 2013 and between $181,000 and $191,000 for 2014.
- **Roth IRAs** – Roth IRA contributions are never tax deductible. Contributions to Roth IRAs are allowed in full if the couple’s AGI doesn’t exceed $178,000 for 2013 and $181,000 for 2014. The contribution is ratably phased out for AGI between $178,000 and $188,000 for 2013 and between $181,000 and $191,000 for 2014.

> ***Example:*** *Rosa, in the previous example, can designate her IRA contribution to be either a deductible Traditional IRA or a nondeductible Roth IRA since the couple’s AGI is under $178,000. Had the couple’s AGI been $183,000, Rosa’s allowable contribution to a deductible Traditional or Roth IRA would have been limited to $2,750 because of the phaseout. The other $2,750 could have been contributed to a nondeductible Traditional IRA.*

These contributions can be made up to the April due date of your tax return, and even if you have already filed your return, you can still make the contribution and file an amended tax return reporting the contribution and claiming a refund if the contribution is deductible.

Please give this office a call if you would like to discuss IRAs or need assistance with your retirement planning.