Want To Make An IRA Contribution For Last Year? You Still Have Time.

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Blog: If you wish to make an IRA contribution for 2016, you still have time. Contributions can be made up to the unextended due date of your tax return, which for 2016 is April 18, 2017.

There are several benefits to making an IRA contribution, the most important one being that you are putting money aside for your future retirement. The following is a rundown of the rules and tax tips relating to making IRA contributions and the potential tax benefits.

Age Rules - You must be under age 70 ½ at the end of the tax year to contribute to a traditional IRA. There is no age limit to contribute to a Roth IRA.

Compensation Rules - You must have taxable compensation to contribute to an IRA. This includes income from wages and salaries and net self-employment income. It also includes tips, commissions, bonuses and alimony. If you are married and file a joint tax return, only one spouse needs to have compensation in most cases.

When to Contribute - You can contribute to an IRA at any time during the year. For the contribution to count for 2016, you must contribute by the due date of your tax return. This does not include extensions. This means most people must contribute by April 18, 2017. If you contribute between January 1 and April 18 of 2017 for 2016, make sure your plan sponsor designates it as a 2016 contribution.

Contribution Limits - In general, the most you can contribute to your IRA for 2016 is the smaller of either your taxable compensation for the year or $5,500. If you were age 50 or older at the end of 2016, the maximum you can contribute increases to $6,500. If you contribute more than these limits, an additional tax will apply. The additional tax is six percent of the excess amount contributed that is in your account at the end of the year.

Deductibility – Contributions to a Traditional IRA are generally tax deductible, but the deductible amount phases out for taxpayers who are active participants in their employer's retirement plan. (Box 13 on your W-2 form from your employer will be checked if you are an active participant in your employer's plan.) A higher phaseout threshold applies to unemployed spouses who make contributions based on the other spouse's income. For 2016, the adjusted gross income (AGI) phaseout range is:

Filing Status	Phaseout Threshold	Fully Phased Out
Unmarried	$61,000	$71,000
Married Filing Jointly	$98,000	$118,000
Married Filing Separately	$0	$10,000

Spousal IRA	$184,000	$194,000

If you can deduct the Traditional IRA contribution, it will lower your AGI, taxable income and tax liability. The amount of your AGI is used to limit certain other deductions and tax credits. So deductible IRA contributions are a way to reduce your AGI and potentially increase other deductions and credits. For example, if you are obtaining your health insurance from a Government Marketplace, lowering your AGI could actually increase the amount of your premium tax credit that helps to pay for your insurance.

Saver's Credit – For lower income taxpayers, there is a tax credit that helps you pay for your IRA contribution. The credit is a percentage of your IRA contribution ranging from 50% to 10% of your first $2,000 of IRA contributions. If you are married, it applies to each spouse individually. For 2016, the credit applies to married taxpayers with an AGI less than $61,500, single taxpayers under $30,750 and head of household filers under $46,125.

Choosing Between Traditional & Roth IRAs – Generally distributions (except for non-deductible contributions) from Traditional IRAs are taxable, while distributions from Roth IRAs are tax-free.

For more details on how an IRA contribution will impact your 2016 tax return, please give this office a call. We can also determine the effect at your tax appointment.