ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

Join the Retirement Planning Conversation

IRA Contribution Nuts & Bolts

As tax season begins, proactive retirement savers assess annual goals, and many will consider IRA contributions. As such, it is a good time to address some bedrock IRA contribution deadlines and rules. While on the surface these appear to be relatively straightforward, year after year people consistently confuse nut-and-bolt IRA principles. *"Am I eligible to contribute to an IRA?" "Can I deduct my contribution?" "Do I have enough compensation?" "Can I contribute for my non-working spouse?"* A misunderstanding of basic IRA guidelines can result in excess contribution penalties, wasted time, frustration, and lost opportunity.

Deadlines and Contribution Limits

A prior-year (2021) IRA or Roth IRA contribution can be made up to the tax filing due date, April 18, 2022. (This year Emancipation Day falls on Saturday, April 16, and Friday is the observed holiday in Washington, D.C.) There is no extension beyond that date, regardless of whether a tax return extension is filed. The maximum contribution is $6,000. Those who are age 50 or older by year's end can contribute an additional $1,000. This total amount is applied in aggregate across all of a person's traditional and Roth IRAs. Note that IRA contributions have no bearing on how much a person can contribute to a workplace plan such as a SEP, SIMPLE or 401(k).

Assuming a person has eligible compensation (defined in the next section), there is no age limit for making a traditional or Roth IRA contribution. Prior to 2020, individuals who were age 70½ and older were forbidden to contribute to a traditional IRA. (There was never an age restriction on Roth IRA contributions.) This limitation was removed by the SECURE Act. Keep in mind that while there are no income limits for traditional IRA contribution eligibility, income limits do apply for Roth IRA contributions.

"Compensation" for IRA Eligibility

IRA and Roth IRA contributions are only permitted when a taxpayer has compensation. Typically, whether or not a person has "compensation" is a relatively straightforward determination. For most individuals, compensation comes from employment, either as an employee or from self-employed income. Confirmation of "compensation" can be found in box 1 of the person's W-2 form. Any amount listed here qualifies as "compensation."

However, what qualifies as compensation isn't always so clear cut. *For instance, does unemployment income count as compensation?* After all, it is taxable.

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