



IRAs



**Traditional
Individual
Retirement
Accounts**

2023 and 2024

Questions & Answers

What is the purpose of this brochure?

It summarizes the primary laws governing traditional IRAs for 2023 and 2024.

What is a traditional Individual Retirement Account (traditional IRA)?

A traditional IRA is a special tax-deferred savings account authorized by Internal Revenue Code section 408. It is a unique and simple way to encourage people to save money for retirement. This brochure discusses the features of the traditional IRA. Other brochures discuss the features of the Roth IRA, Coverdell Education Savings Accounts, SEP-IRA and the SIMPLE-IRA.

What are the tax benefits realized from a traditional IRA?

Your IRA contributions and future earnings are tax deferred until withdrawn by you or your beneficiary. If you may claim a tax deduction for your contribution then you will receive an immediate tax benefit because your current taxable income is reduced. If you are eligible to claim Saver's Tax Credit, then you will receive the benefit of that credit.

What two purposes will I achieve by having a traditional IRA?

You will accumulate funds for your retirement and you may transfer it to your beneficiaries.

THE CONTRIBUTION RULES

When do I have to establish the traditional IRA?

You have until the due date (without extensions) for filing your federal income tax return, normally April 15, to establish and fund your traditional IRA for the previous tax year.

There will be times the April 15th deadline will be changed on account of the Emancipation Day holiday or because of special guidance issued by the IRS.

Am I eligible to contribute to a traditional IRA?

For 2023 and 2024 you are eligible for a regular contribution if you have compensation (income earned from performing material personal services). You may also qualify for a rollover or a transfer contribution.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will NOT be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or \$6,500, for 2023 and \$7,000 for 2024, as reduced by any amount you contributed to your Roth IRA.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or \$7,500, for 2023 and \$8,000 for 2024, as reduced by any amount you contributed to your Roth IRA for the same tax year.

May I contribute to my traditional IRA and also my Roth IRA for the same year?

Yes, but your aggregate traditional IRA and Roth IRA contributions are subject to the applicable contribution limit for such year. For example, if your contribution limit is \$6,500 for 2023, then the sum of your traditional IRA contributions and your Roth IRA contributions must be \$6,500 or less.

When might I or my spouse be eligible to use the spousal IRA contribution rules?

If your compensation is less than the \$6,500 or \$7,500 limit or the \$7,000 or \$8,000 limit, as applicable, then you are permitted to use your spouse's compensation when making your Roth IRA contribution. This generally means both of you will contribute the applicable limit. For example, you are married and both of you are age 44. Your spouse has compensation of \$42,000, and your compensation is \$1,800. You are eligible to contribute \$7,500 to your Roth IRA. Your spouse is also eligible to contribute \$7,500. The following rules must be satisfied:

- You and your spouse must each have your own traditional 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.

The combined contribution by both spouses must equal or be less than their combined eligible compensation.

To what extent will I be entitled to a tax deduction for my 2023 and 2024 IRA contribution?

The answer depends upon your filing status, whether or not you and/or your spouse is covered by an employer-spon-

sored retirement plan at work, and your modified adjusted gross income (AGI). The amount you can deduct is your contribution limit \$6,500 or \$7,500, as applicable, for 2023 and \$7,000 and \$8,000 for 2024 as reduced by the amount you cannot deduct.

If you are single and you are not covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are married and neither you nor your spouse is covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are single and you are covered under an employer-sponsored retirement plan, or if you are married and either you or your spouse is covered under an employer-sponsored retirement plan, then you will be entitled to only a partial deduction or no deduction, as summarized in the IRA Contribution Deductibility chart produced later.

If you are a married person who is not covered by a pension plan at work, you may well be entitled to deduct your IRA contribution even though your spouse is covered by a pension plan. See the "Married - joint return, but only your spouse is covered" section of the chart. Many individuals mistakenly believe that they are ineligible to make a deductible IRA contribution when their spouse participates in a 401(k) plan.

May I make nondeductible contributions?

Yes, even though you are ineligible to claim a tax deduction, you are still eligible to make a contribution up to your maximum limit. This contribution is called a nondeductible contribution. When you withdraw the nondeductible funds you do not include such amounts in your taxable income. Any income earned by your non-deductible contributions will compound faster and is not taxed until you withdraw it. When you withdraw the income you will need to include it in your income for the year you withdraw. However, the tax rules do not provide that you first withdraw your earnings and then the contributions or vice versa. The tax rules provide that a person who has made non-deductible contributions and takes a withdrawal will on a pro-rate basis include the portion attributable to the earnings in income and the portion attributable to the contributions is not included in income. Many times an individual can realize some substantial tax benefits by making nondeductible contributions.

To what extent may I be entitled to a tax credit for my IRA contributions?

You may or may not qualify for the tax credit called the Saver's Tax Credit. The intent is to give an additional tax benefit to a single person whose MAGI for 2023 is less than \$36,500 or a married couple whose joint MAGI for 2023 is less than \$73,000. These amounts are adjusted for inflation each year.

A formula is used to calculate your credit. Your credit may vary from \$1 to \$1,000, depending on the amount you contribute to your IRA, your filing status and your modified adjusted gross income. If you meet the following requirements for a given tax year, then you will qualify for this credit:

1. Be at least 18 years of age as of December 31 of such year.
2. Not be a dependent on someone else's tax return
3. Not be a student as defined in Internal Revenue Code section 25B(c)
4. Have adjusted gross income under certain limits which are based on your filing status:*

	2023	2024
Joint filers	\$73,000	\$77,000
Head-of-Household	\$54,750	\$56,750
All other filers	\$36,500	\$38,500

(including Married, filing separately, and single)

5. Must not have received certain distributions which disqualify you from claiming the credit, or certain distributions which were made to your spouse. Because of the complexity of this credit, you will want to review IRS Publication 590-A for a complete explanation.

THE WITHDRAWAL RULES

When may I start to withdraw money or assets from my traditional IRA?

You may begin withdrawals at any time. You will want to understand the income tax consequences.

What are the tax consequences of an IRA distribution?

If you have not made any nondeductible contributions, then the distributions will be taxable as ordinary income. However, if you have made both deductible and nondeductible contributions, you will not generally have to pay income tax pro rata on the part of your distribution representing your nondeductible contributions. Consult your tax preparer or see IRS Publication 590-B. Withdrawals from

your IRA before you reach age 59½ will generally result in an additional tax of 10% of the taxable amount withdrawn. This 10% tax is in addition to the regular income tax on the amount withdrawn.

Are there exceptions to the 10% additional tax?

Yes. You will not owe the 10% additional tax if you are in one of the following situations. Refer to IRS Publication 590-B for an explanation of the exceptions.

- You convert the amount to a Roth IRA.
- You have unreimbursed medical expenses that are more than 10.0% of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance when you are unemployed.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving periodic distributions over a term equal to your life expectancy.
- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is of contributions returned before the due date of your tax return.
- The distribution is due to an IRS levy.
- The distribution is a qualified disaster distribution.
- The distribution is pursuant to a qualified HSA funding distribution.
- The distribution is pursuant to a qualified birth or adoption distribution.
- The distribution is pursuant to a terminal illness
- The distribution is pursuant to domestic abuse (2024)
- The distribution is pursuant to a need for emergency expenses (2024)

When am I required to start withdrawing the money in my IRA?

You must make a withdrawal of a minimum amount by April 1 of the year following the calendar year in which you reach age 73, and by each December 31 thereafter. The minimum amount is calculated using the IRA minimum distribution rules then in effect.

Commencing with 2023, you must withdraw your required minimum amount by December 31, 2023 if you attained age 73 prior to 2023, and by April 1, 2025, if you attain age 73 by December 31, 2024.

What happens if I fail to withdraw the required minimum distribution?

Current federal income tax law provides a penalty tax of either 10% or 25% of the amount which was required to be distributed, but which was not.

Is my IRA insured by the FDIC?

Yes, if you have invested your IRA funds in savings or time deposits as offered by an insured institution. FDIC insurance applies to certain “deposits” of an insured institution such as saving accounts and time deposits. Some investments, such as mutual funds, stocks, and bonds are not eligible for FDIC insurance coverage. The insured amount for a qualifying depositor with IRAs, Roth IRAs, SEPs, SIMPLEs, self-directed Keogh accounts, 457 plans and certain self-directed employee benefit plan accounts is \$250,000. All such accounts must be aggregated.

What happens to my IRA when I die?

The funds will belong to the individual(s) or entities you have designated to be the beneficiary(ies) of your IRA. There are rules requiring your beneficiary(ies) to withdraw certain minimum distributions by various deadlines. If such distributions do not occur by the appropriate deadline, then your beneficiary will owe the RMD excise tax. You may want to inform your beneficiary(ies) that he or she is a beneficiary of your IRA. The rules which apply to a beneficiary will not apply to your spouse if he or she is your sole primary beneficiary and he or she elects to treat your IRA as his or her own IRA. In this case, your spouse will not be required to start withdrawing funds until he or she becomes subject to the required distribution rules as an IRA accountholder.

In general, if you die after December 31, 2019, your non-spouse beneficiaries who are more than 10 years younger than you must close the inherited IRA by December 31st of the year containing the 10th anniversary of your death. Certain beneficiaries will have the right to use the life distribution rule rather than the 10-year rule. The required distribution rules for beneficiaries are complex and beyond the scope of this general brochure.

THE CONVERSION RULES

Why convert my traditional IRA to a Roth IRA?

The income earned by the funds within a Roth IRA will be tax free to you or your beneficiaries when withdrawn as a qualified distribution. The income earned within your traditional IRA is always taxable when withdrawn.

Example: You have \$10,000 in your traditional IRA as of January 2023. You can certainly leave the funds within your traditional IRA and allow them to grow. Assume this \$10,000 grows in value to \$50,000 over the next 18 years.

The \$40,000 of income will be taxable whenever it is withdrawn from a traditional IRA. However, if you had converted or moved this \$10,000 to a Roth IRA, the \$40,000 of income will never be taxed if the funds are withdrawn as a qualified distribution.

How do I convert my traditional IRA?

You can convert amounts from your traditional IRA to a Roth IRA by using any of the following three methods. The first method is the standard rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days of the distribution. The second method is a trustee-to-trustee transfer. Regardless of the conversion method, IRS reporting forms must be prepared.

Any Roth IRA conversion made on or after January 1, 2018, is irrevocable. It cannot be undone by recharacterizing it.

Who is eligible to do a conversion for years 2023 and/or 2024?

Anyone having a traditional IRA, SEP-IRA or SIMPLE-IRA is eligible to convert funds to a Roth IRA. An individual's RMD for the current year is ineligible to be converted.

What distributions from a Roth IRA will be tax free?

"Qualified distributions" will be tax free. To be a qualified distribution, the distribution must occur after you have met the five-year holding requirement, and the distribution is made to you (1) after you have attained age 59½, (2) after you have become disabled, (3) because of a first-time home purchase, or (4) to your beneficiary after your death.

Are there special disaster tax rules?

Yes, there are special tax relief IRA rules for certain disaster victims of federally declared disasters. These special tax rules are beyond the scope of this brochure. You should consult with your tax adviser.

How do I establish my traditional IRA and/or Roth IRA?

Just come in and talk with us and we will assist.

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 2023

(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 \$73,000 or less	Entitled to full deduction
\$73,001-\$82,999.99	Entitled to prorated deduction amount - use special formula**
\$83,000 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 \$73,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$116,000 or less	Entitled to full deduction
\$116,001 - \$135,999.99	Entitled to prorated deduction amount - use special formula**
\$136,000 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 \$116,000/\$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 widower

Below \$116,000 or less	Fully Deductible
\$116,001-\$135,999.99	Entitled to prorated deduction amount - use special formula**
\$136,000 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 \$116,000/\$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 \$218,000 or less	Fully Deductible
\$218,001-\$227,999.99	Entitled to prorated deduction amount - use special formula**
\$228,000 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 \$218,000/\$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 2024

(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 \$77,000 or less	Entitled to full deduction
\$77,001-\$86,999.99	Entitled to prorated deduction amount - use special formula**
\$87,000 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 \$77,000/\$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered or qualifying widower

Below \$123,000 or less	Entitled to full deduction
\$123,001 - \$142,999.99	Entitled to prorated deduction amount - use special formula**
\$143,000 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 \$123,000/\$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 widower

Below \$123,000 or less	Fully Deductible
\$123,001-\$142,999.99	Entitled to prorated deduction amount - use special formula**
\$143,000 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 \$123,000/\$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 \$230,000 or less	Fully Deductible
\$230,001-\$239,999.99	Entitled to prorated deduction amount - use special formula**
\$240,000 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 \$230,000/\$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).