

IRA Limits

Contribution Limit

For any tax year, you may contribute the lesser of the regular contribution limit or 100% of your compensation (or earned income). If you reached age 50 by the end of a year, you may contribute an additional amount of catch-up contribution. Here is a chart outlining contribution limits for some tax years:

Tax Year	Regular Contribution Limit	Tax Year	Additional Catch-up Contribution Limit
2002	\$3,000	2002	\$500
2003	\$3,000	2003	\$500
2004	\$3,000	2004	\$500
2005	\$4,000	2005	\$500
2006	\$4,000	2006	\$1,000
2007	\$4,000	2007	\$1,000
2008	\$5,000	2008	\$1,000
2009 and beyond	\$5,000	2009 and beyond	\$1,000
Beginning 2009, contributions are indexed for COLA increases in \$500 increments		Catch-up contributions are not indexed for inflation	

Spousal IRA Contribution

You may contribute to a spousal IRA on behalf of your non-working spouse. The limits discussed above apply. Remember that if you also contribute to an IRA for yourself, both IRAs must be maintained as separate accounts, as IRAs cannot be held jointly. Of course, in order for you to make a spousal IRA contribution, you and your spouse must file a joint income tax return. Your combined contribution should not be more than the amount of compensation you report on your tax return.

Contribution Deadline

IRA participant contributions must be made by April 15th. If April 15th falls on a weekend, the deadline is the next business day. Contributions postmarked on or before April 15th are considered to be made by the deadline.

Making Your Contribution After You File Your Tax Return

Your year's contribution can be made at any time between January 1st of that year and April 15th of the following year even if you filed your income-tax return before April 15th. Should you decide to make your contribution after you file your tax return, be sure to inform your tax professional so that the contribution is included on your return.

Age Restriction

You may not make a participant contribution to a Traditional IRA starting from the year you attain age 70.5. You may, however, make a contribution for the preceding year. For example, if you reached age 70.5 in 2004, you were not allowed to make a contribution for the 2004 tax year; however, you could have made a contribution before April 15, 2004, for the 2003 tax year.

Indicate Tax Year on Check

If you are one of the many taxpayers who will take advantage of the 4.5-month extension (i.e. the deadline of April 15th) to make an IRA participant contribution for the preceding year, be sure to indicate the applicable year on your check or any accompanying contribution form. If you do not provide this information, your IRA custodian/trustee will not be able to determine properly the applicable year and might therefore report the contribution for the incorrect year.

Deducting Your Traditional IRA Contribution

Being able to take a tax deduction for a contribution to your Traditional IRA depends on several factors, namely your modified adjusted gross income, your tax-filing status and your participant status (i.e. whether or not you are considered an active participant.)

Active Participant Defined

Generally, your active-participant status depends on whether or not you participate in an employer-sponsored retirement plan. An employer-sponsored plan includes defined benefit plans, money-purchase or target-benefit plans, profit-sharing plans, 401(k) plans, SEP IRAs and SIMPLE IRAs. The rules vary among the different plans. For example, you are considered an active participant in a profit-sharing plan for the year your employer deposits the contribution to your retirement account, even if the contribution is being made for a different year. (Employers have until their tax-filing deadline plus extensions to make contributions; therefore, a contribution for 2003 may be made in 2004.) For participation in a money purchase pension plan, you are considered an active participant for the year you are entitled to receive the contribution, regardless of when the contribution is made.

By checking the "Retirement Plan Box" on your Form W-2, your employer should indicate if you are an active participant. If you are unsure of your status, check with your employer.

If you are married and neither you nor your spouse is an active participant, you may take a tax deduction for the full contribution amount. If one of you is an active participant, then your income determines whether or not you are allowed to take a tax deduction.

So Can You Deduct Your Contribution?

Use the following chart as a guideline to determine if you are able to get a tax deduction for the amount you contribute. Note that these thresholds change every year. The following limits applied to tax year 2003.

Traditional IRA Deductibility Limit for 2003			
Tax Filing Status	Active Participant Status	Modified Adjusted Gross Income	Deduction allowed
Single or Head of household	Individual is <u>not</u> active	No limit	Full deduction
	Individual <u>is</u> active	\$40,000 or less	Full deduction
		More than \$40,000 but less than \$50,000	Partial deduction
		\$50,000 or more	No deduction
Married Filing Jointly	Individual is <u>not</u> active Individual's spouse is <u>not</u> active	No limit	Full deduction
	Individual is active	\$60,000 or less	Full deduction
		More than \$60,000 but less than \$70,000	Partial deduction
		\$70,000 or more	No deduction
	Individual is <u>not</u> active Individual's spouse <u>is</u> active	\$150,000 or less	Full deduction
		More than \$150,000 but less than \$160,000	Partial deduction
		\$160,000 or more	No deduction
Married filing separately	Individual is <u>not</u> active Individual's spouse is <u>not</u> active	No limit	Full deduction
	Individual is active ¹	\$10,000 or less	Partial deduction
		\$10,000 or more	No deduction
	Individual is <u>not</u> active Individual's spouse <u>is</u> active ²	\$10,000 or less	Partial deduction
		\$10,000 or more	No deduction

1. If you and your spouse did not live together at any time during the year, then you are considered "single" for tax-filing purposes and should use the guidelines for a single taxpayer.
2. If you and your spouse did not live together at any time during the year, you are allowed a full deduction.

If you are allowed only partial tax deduction, your tax professional should be able to help you calculate your deductible amount. Taxpayers who are not allowed a deduction or a partial deduction may consider making a non-deductible contribution to the Traditional IRA or a contribution to a Roth IRA.

Conclusion

Many factors determine the decisions a taxpayer makes about his/her retirement. What may be ideal for another person may not be ideal for you. For any matter related to retirement plans, seek assistance from a competent professional before you make a decision.