

# Deductible IRA Contributions for Traditional IRAs

The annual amount that an individual can contribute to a traditional IRA and then deduct on his or her income tax return cannot exceed the lesser of \$5,000<sup>1</sup> or total compensation for that year. For a married couple filing a joint return, where only one spouse is employed (or where one spouse earns less than \$5,000), the annual contribution is limited to the lesser of \$10,000<sup>2</sup> (a maximum of \$5,000 each to separate accounts) or their combined annual compensation. The contributions on behalf of the non-employed (or lesser earning) spouse are made to an arrangement called a spousal IRA.<sup>3</sup>

The \$5,000/\$10,000 limits assume no contributions to a Roth IRA. The contribution limits for both a traditional IRA and a Roth IRA are coordinated: a taxpayer may not contribute more than \$5,000 (\$10,000 spousal) per year into a single IRA or combination of IRAs. Excess contributions are subject to a 6% excise tax.

The maximum limit on the amount that may be deducted is restricted, however, if the individual (or spouse) is a participant in an employer-sponsored retirement plan. If this is the case, and depending on the level of modified adjusted gross income (MAGI), a deduction may be allowed for all, none, or only a portion of an IRA contribution.

The chart below shows the traditional IRA contribution phase-out ranges for tax year 2011.

Status	No Participation in a Company Retirement Plan	If Covered by a Company Retirement Plan <sup>4</sup>	
		MAGI	IRA Deduction
Single	Up to \$5,000 is deductible.	Up to \$56,000	\$5,000
		\$56,000 - \$66,000	Phased out
		Over \$66,000	None
Married filing joint	Up to \$5,000 for each is deductible, including spousal IRAs.	Up to \$90,000	\$5,000 (\$10,000 spousal)
		\$90,000 - \$110,000	Phased out
		Over \$110,000	None
Married filing separate	Up to \$5,000 for each is deductible, if both spouses are employed.	Up to \$10,000	Phased out
		Over \$10,000	None

<sup>1</sup> This amount applies to 2011. For 2010, the maximum allowable contribution was \$5,000.

<sup>2</sup> This amount applies to 2011. For 2010, the maximum allowable contribution was \$10,000.

<sup>3</sup> If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if spouse is also over 50).

<sup>4</sup> A taxpayer will not be considered an active participant in an employer-sponsored retirement plan merely because the taxpayer's spouse is an active participant. However, in this situation, the taxpayer's deductible IRA contribution will be phased out for couples with a MAGI of \$169,000 - \$179,000.

# Deductible IRA Contributions for Traditional IRAs

---

## Other Considerations

- Company retirement plans include pension plans, profit sharing plans, 401(k), 403(b) plans, SEP-IRAs, Keogh plans, and SIMPLE plans.
- Generally, compensation includes wages, salaries, professional fees, net self-employment income and other amounts received for performing personal services.
- Compensation also includes alimony received by a divorced spouse.

## Calculating the Maximum Deductible Amount – Single<sup>1</sup> or MFS

For 2011, the following steps may be used to calculate the deductible portion of a contribution to a traditional IRA for a single individual or a married individual using the married filing separately filing status:<sup>2</sup>

1. Modified adjusted gross income (MAGI):<sup>3</sup> \$ \_\_\_\_\_
2. Applicable dollar amount:<sup>4</sup> ( \_\_\_\_\_ )
3. Line 1 minus Line 2: \_\_\_\_\_
4. Deduction: \_\_\_\_\_
  - a. If line 3 is greater than \$10,000, no deduction allowed.
  - b. If line 3 is between \$0 and \$10,000, subtract line 3 from \$10,000.
5. Multiplication factor: .50 (.60 if age 50 or greater) \_\_\_\_\_
6. Multiply line 4 x line 5 \_\_\_\_\_
7. Round line 6 to next highest \$10 \_\_\_\_\_
8. Your compensation for the year: \_\_\_\_\_
9. Contributions you plan to make \_\_\_\_\_  
(Do not enter more than \$5,000 [\$6,000 if age 50 or older])
10. Maximum deductible IRA amount:<sup>5</sup> \$ \_\_\_\_\_  
(Compare the amounts on Lines 7, 8, and 9, and enter the smallest amount.)

---

<sup>1</sup> Including Head of Household.

<sup>2</sup> Married couples where both spouses contribute to an IRA should compute each deduction separately. If an individual receives social security benefits in the same year that a contribution is made to a traditional IRA, a different calculation is involved. See IRS Publication 590, Individual Retirement Arrangements (IRAs) for details.

<sup>3</sup> MAGI = adjusted gross income (AGI) increased by: (1) student loan interest deduction; (2) tuition and fees deduction; (3) domestic production activities deduction; (4) foreign earned income or housing exclusion; (5) foreign housing deduction; (6) excluded qualified savings bond interest; (7) excluded employer paid adoption expenses. For most taxpayers, AGI and MAGI will be the same.

<sup>4</sup> This will vary with filing status. For 2011 these amounts are: Single and Head of Household - \$56,000; MFS - \$0.

<sup>5</sup> If the deductible portion of the IRA is between \$1 and \$200, round up to \$200. IRC Sec. 219(g)

# Deductible IRA Contributions for Traditional IRAs

---

## Calculating the Maximum Deductible Amount – Married Filing Jointly<sup>1</sup>

For 2011, the following steps may be used to calculate the deductible portion of a contribution to a traditional IRA for a married individual using the married filing jointly filing status:<sup>2</sup>

- |   |                   |
|---|-------------------|
| 1. Modified adjusted gross income (MAGI): <sup>3</sup>  | \$ _____          |
| 2. Applicable dollar amount: <sup>4</sup>   | <u>(\$90,000)</u> |
| 3. Line 1 minus Line 2:   | _____             |
| 4. Deduction:   | _____             |
| a. If line 3 is greater than \$20,000, no deduction allowed.  |                   |
| b. If line 3 is between \$0 and \$20,000, subtract line 3 from \$20,000.  |                   |
| 5. Multiplication factor: .25 (.30 if age 50 or greater)  | _____             |
| 6. Multiply line 4 x line 5   | _____             |
| 7. Round line 6 to next highest \$10  | _____             |
| 8. Your compensation for the year:  | _____             |
| 9. Contributions you plan to make<br>(Do not enter more than \$5,000 [\$6,000 if age 50 or older])                            | _____             |
| 10. Maximum deductible IRA amount: <sup>5</sup><br>(Compare the amounts on Lines 7, 8, and 9, and enter the smallest amount.) | \$ <u>_____</u>   |

---

<sup>1</sup> Including a qualified widow(er).

<sup>2</sup> Married couples where both spouses contribute to an IRA should compute each deduction separately. If an individual receives social security benefits in the same year that a contribution is made to a traditional IRA, a different calculation is involved. See IRS Publication 590, Individual Retirement Arrangements (IRAs) for details.

<sup>3</sup> MAGI = adjusted gross income (AGI) increased by: (1) student loan interest deduction; (2) tuition and fees deduction; (3) domestic production activities deduction; (4) foreign earned income or housing exclusion; (5) foreign housing deduction; (6) excluded qualified savings bond interest; (7) excluded employer paid adoption expenses. For most taxpayers, AGI and MAGI will be the same.

<sup>4</sup> The value for 2011. This amount varies with filing status and is subject to change each year.

<sup>5</sup> If the deductible portion of the IRA is between \$1 and \$200, round up to \$200. IRC Sec. 219(g)