

## IRA CONTRIBUTION LIMITS RISE FOR 2013

*Save a little more for retirement.*

Presented by Benedict A. Mitchell Jr.

**Time to boost your IRA balance.** In 2013, you can contribute up to \$5,500 to your Roth or traditional IRA. If you will be 50 or older by the end of 2013, your contribution limit is actually \$6,500 this year thanks to the IRS's "catch-up" provision. The new limits represent a \$500 increase from 2012 levels.<sup>1</sup>

**January is an ideal time to max out your annual IRA contribution.** If you are in the habit of making a single annual contribution to your IRA rather than monthly or quarterly contributions, try to make the maximum contribution as early as you can in a year. More of your money should have an opportunity for tax-deferred growth, not less. While you can delay making your 2013 IRA contribution until April 15, 2014, there is no advantage in waiting - you will stunt the compounding potential of those assets, and time is your friend here.<sup>2</sup>

**Do you own multiple IRAs?** If you do, remember that your total IRA contributions for 2013 cannot exceed the relevant \$5,500/\$6,500 contribution limit.<sup>3</sup>

**Your IRA contribution may be tax-deductible.** Are you a single filer or a head of household? If you contribute to both a workplace retirement plan and a traditional IRA in 2013, you will be able to deduct the full amount of your IRA contribution if your modified adjusted gross income is \$59,000 or less. A partial deduction is available to such filers with MAGI between \$59,001-69,000.<sup>4</sup>

The 2013 phase-outs are higher for married couples filing jointly. If the spouse making the IRA contribution also participates in a workplace retirement plan, the traditional IRA contribution is fully deductible if the couple's MAGI is \$95,000 or less. A partial deduction is available if the couple's MAGI is between \$95,001-115,000.<sup>4</sup>

If the spouse making a 2013 IRA contribution *doesn't* participate in a workplace retirement plan but the other spouse does, the IRA contribution may be wholly deducted if the couple's MAGI is \$178,000 or less. A partial deduction can be had if the couple's MAGI is between \$178,001-188,000. (The formula for calculating reduced IRA contribution amounts is found IRS Publication 590.)<sup>5</sup>

You cannot contribute to a traditional IRA in the year in which you turn 70½ or in subsequent years. You can contribute to a Roth IRA at any age, assuming your income permits it.<sup>1</sup>

**What are the income caps on Roth IRA contributions this year?** Single filers and heads of household can make a full Roth IRA contribution for 2013 if their MAGI is less than \$112,000; the phase-out range is from \$112,000-127,000. For joint filers, the MAGI phase-out occurs at \$178,000-188,000 in 2013; couples with MAGI of less than \$178,000 can make a full contribution. (To figure reduced contribution amounts, see

Publication 590.) Those who can't contribute to a Roth IRA due to income limits do have the option of converting a traditional IRA to a Roth.<sup>7</sup>

As a reminder, Roth IRA contributions aren't tax-deductible - that is the price you pay today for the possibility of tax-free IRA withdrawals tomorrow.<sup>8</sup>

**Can you put money in an IRA even if you don't work?** There is a provision for that. Generally speaking, you need to have taxable earned income to make a Roth or traditional IRA contribution. The IRS defines taxable earned income as...

\*Wages, salaries and tips.

\*Union strike benefits.

\*Long-term disability benefits received before minimum retirement age.

\*Net earnings resulting from self-employment.

Also, you can't put more in your IRA(s) than you earn in a given year. (For example, if you are 25 and your taxable earned income for 2013 amounts to \$2,592, your IRA contributions for this year can't exceed \$2,592.)<sup>9</sup>

However, a spousal IRA can be created to let a working spouse contribute to a nonworking spouse's retirement savings. That working spouse can make up to the maximum IRA contribution on behalf of the stay-at-home spouse (which does not affect the working spouse's ability to contribute to his or her own IRA).

Married couples who file jointly can do this. The IRS rule is that you can contribute the maximum into this IRA for each spouse as long as the working spouse has income equal to both contributions. So if both spouses will be older than 50 at the end of 2013, the working spouse would have to earn taxable income of \$13,000 or more to make two maximum IRA contributions (\$12,000 if only one spouse is age 50 or older at the end of 2013, \$11,000 if both spouses will be younger than 50 at the end of the year).<sup>6,9</sup>

So, to sum up ... make your 2013 IRA contribution as soon as you can, the larger the better.

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## Citations.

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- 2 - [finance.zacks.com/can-ira-contribution-carried-forward-5388.html](http://finance.zacks.com/can-ira-contribution-carried-forward-5388.html) [1/9/12]
- 3 - [helpdesk.blogs.money.cnn.com/2012/06/06/can-i-contribute-more-than-5000-to-multiple-iras/](http://helpdesk.blogs.money.cnn.com/2012/06/06/can-i-contribute-more-than-5000-to-multiple-iras/) [6/6/12]
- 4 - [www.irs.gov/Retirement-Plans/2013-IRA-Deduction-Limits-Effect-of-Modified-AGI-on-Deduction-if-You-Are-Covered-by-a-Retirement-Plan-at-Work](http://www.irs.gov/Retirement-Plans/2013-IRA-Deduction-Limits-Effect-of-Modified-AGI-on-Deduction-if-You-Are-Covered-by-a-Retirement-Plan-at-Work) [11/26/12]
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- 7 - [www.irs.gov/Retirement-Plans/Amount-of-Roth-IRA-Contributions-That-You-Can-Make-For-2013](http://www.irs.gov/Retirement-Plans/Amount-of-Roth-IRA-Contributions-That-You-Can-Make-For-2013) [11/27/12]
- 8 - [www.irs.gov/taxtopics/tc309.html](http://www.irs.gov/taxtopics/tc309.html) [12/17/12]
- 9 - [www.creators.com/lifestylefeatures/business-and-finance/money-and-you/can-you-contribute-to-an-ira-if-you-don-t-have-a-job.html](http://www.creators.com/lifestylefeatures/business-and-finance/money-and-you/can-you-contribute-to-an-ira-if-you-don-t-have-a-job.html) [2011]