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Money Sense: A review of traditional and Roth contribution limits for 2020

By Marc A. Hebert

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AS YOU ARE probably aware, retirement plan contribution limits often change for the upcoming year. Recently, the IRS released the amounts for 2020. To help you plan for the maximum savings, we are going to review the new amounts.



If you are able to contribute to a traditional IRA or Roth IRA, your maximum contribution will be the lesser of \$6,000 or 100% of your earned income. The catch-up contribution for those age 50 or older is still at the \$1,000 level. If eligible, you can contribute to both a traditional and Roth IRA, but you can't exceed the \$6,000 contribution limit (or \$7,000 with the catch-up) for the total. These amounts remain unchanged from 2019.

Even though you might make a traditional IRA contribution, it might not be fully deductible. Receiving a deduction depends on your income level and whether or not you are a participant in a plan provided by your employer. This could be a 401(k), for example. If you are covered by a plan at work and your filing status is single or head of household, you can deduct your contribution if your modified adjusted gross income (MAGI) is \$65,000 or less. This is a \$1,000 increase over 2019. For married taxpayers filing jointly, the MAGI amount is \$104,000 or less. This is also up \$1,000 from 2019.

There is a situation that often affects married couples in which one spouse is covered by an employer plan while the other isn't. Under this situation, you may receive a deduction if your MAGI is under \$196,000.

It should be noted that even this isn't the whole story. There are also income phase outs for each category. So, if you are slightly over the MAGI limits you might be entitled to a partial deduction. Be sure to check this out at tax time.

Any amounts contributed to your IRA that are nondeductible can be left as nondeductible contributions or reversed. For example, say you made a \$6,000 contribution but after completing your return, you found that only \$5,000 was deductible. You can leave the \$1,000 as a nondeductible contribution and file Form 8606 to inform the IRS. This way when you take a distribution, the IRS knows that you have paid the tax already on the \$1,000 and won't tax you again. You also have the option of reversing the contribution.

The other type of IRA contribution some people choose to make is for a Roth IRA.

With a Roth contribution, you will not be entitled to a tax deduction, but if certain parameters are met, you will not be taxed on the distributions.

Once again, there are MAGI limits for making these. If your filing status is single or head of household, you can make Roth contributions if your MAGI is \$124,000 or less. If you are married and filing jointly and your MAGI is \$196,000 or less, you can make a Roth contribution. Both limits have increased from 2019: the single limit by \$2,000 and the married filing jointly by \$3,000. Once again, we should point out that the contribution is also limited by your earned income – it can't exceed 100% of this amount. Roth IRA contributions also have MAGI phase outs, so be sure to check these as well.

As can be seen, the ability to make contributions and for what amount can get confusing. Since you have until April 15 following the tax year for which your contribution will apply to actually make the contribution, a discussion with your tax adviser or certified financial planner can help you decide if a contribution is right for you.

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Your question and his response might appear in a future column.

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