Contributing to IRAs

By Diane Osborne

There are several advantages of making IRA contributions and getting them invested as soon as possible. You give your money a chance to grow, you can get tax benefits, and the earlier you start contributing, the more opportunity you have to build wealth.

You must have eligible compensation to be able to contribute to an IRA. For IRA purposes, eligible compensation includes wages, salaries, tips, commissions received as a percentage of sales, and taxable alimony. The amount of earned income you have must equal or exceed the amount of your IRA contribution.

You may contribute up to $5,500 per year to your IRA for 2017 and 2018. If you are at least age 50 by the end of the year to which the contribution applies, you may contribute an additional $1,000. This additional amount is referred to as a catch-up contribution.

If your earned income is less than $5,500 or $6,500 if you are 50 or over, then you are eligible to contribute only up to the amount you earn for the year. This means if you are retired and no longer have earned income, you may not make an IRA contribution. Types of unearned income are dividends, interest, Social Security, and rental income.

There are also some income limits that come into play when figuring how much you are eligible to contribute to an IRA.

For single filers who are covered by a company retirement plan in 2017, the deduction is phased out between $62,000 and $72,000 of modified adjusted gross income.

For married filers, if you are covered by a company retirement plan in 2017 the deduction is phased out between $99,000 and $119,000 of modified adjusted gross income.

For married filers where you are not covered by a company plan but your spouse is – in 2017 the deduction for your IRA contribution is phased out between $186,000 and $196,000 of modified adjusted gross income.

Roth IRAs and Roth 401(k)s are a great tax-free gift from the IRS. They have tax-free growth potential and tax-free withdrawals for you and your heirs. You can contribute money that has already been taxed but, any growth or earnings from the investments in the account along with money you take out is free from federal taxes. You can also elect to convert existing IRAs to Roth IRAs. The current value that you convert becomes taxable to you in that year at your tax rate, but all the future growth and income is tax-free. In a low-income year, this could be a great strategy for many farmers and ranchers.

Everyone's situation is different. You should always check with your tax and financial professional for assistance with determining what type of IRA or retirement plan is best for you.

Thanks,

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