The Spousal IRA Contribution

Questions & Answers

Purpose. This brochure explains the special rules and considerations which apply to spousal contributions made to a traditional IRA and/or Roth IRA.

What is a spousal contribution?

It is a special type of regular or annual contribution. The federal tax laws require that a person must have compensation in order to make an annual IRA contribution. However, a spousal contribution is an exception to this rule. A spousal contribution is an IRA contribution made by a married individual, but the basis for this contribution is his or her spouse's compensation along with his or her own compensation.

Must I be married to make a spousal IRA contribution?

Yes. You must be married as of December 31 of the year for which the contribution is made.

What other eligibility rules must I meet in order to make a spousal contribution to a traditional IRA?

- You must have your own IRA,
- You must be under age 70½ as of December 31 of the year for which the contribution was made,
- You must file a joint income tax return, and
- You must not have compensation includable in gross income which is greater than that of your spouse.

Must my spouse make the spousal IRA contribution to my IRA?

No. The basic legal concept used to be that the compensated spouse made a spousal contribution on behalf of his or her non-working spouse. The legal concept now is, the non-working or lower-income spouse makes a contribution for himself or herself based on the spouse's compensation, along with his or her own compensation.

Must I designate my spouse as my beneficiary of this IRA?

The general answer is "no." Unlike many types of employer-sponsored pension plans, you are not required by federal law to designate your spouse as your IRA beneficiary. State laws govern however, and in those states with community property laws or marital property laws, your spouse does have a property right to a portion of your IRA.

What constitutes compensation (i.e. earned income) so an IRA contribution can be made?

Earned income means wages, salary, professional fees, and other amounts received in exchange for personal services rendered. It includes such things as bonuses, commissions, tips, self-employment and taxable alimony. It does not include interest, dividends, pension payments, deferred payments, social security payments, or rental payments.

Can a spousal contribution be made to either a traditional IRA or a Roth IRA?

Yes. You may make a spousal IRA contribution to one or more traditional IRAs and/or Roth IRAs. However, the limits below apply to the aggregate of your contribution.

What are the contribution limits for a person who is not age 50 or older?

Tax Year	Amount
2004	$3,000
2005-2007	$4,000
2008-2010	$5,000

What are the contribution limits for a person who is age 50 or older?

Tax Year	Amount
2004	$3,500
2005	$4,500
2006-2007	$5,000
2008-2010	$6,000

Must the spousal contribution be put entirely into one IRA plan?

The spousal contribution can be put entirely in one IRA plan, or can be split however you want, perhaps putting half into a traditional IRA, and half into a Roth IRA. Just as in regular contributions, there is no limit as to how many accounts into which you can deposit; there is only a dollar limit on the total contribution.

Can I make a spousal contribution one year, and a regular contribution the next year?

Yes.

What is my deadline for making a spousal IRA contribution?

You have until the due date for filing your federal tax return, normally April 15, to establish and fund your IRA for the previous tax year. Obtaining an extension for your tax-filing deadline does not extend the IRA contribution deadline. It is advantageous for you to fund your IRA early in the year to let the tax-deferred earnings go to work for you right away.

May I make a spousal contribution to my traditional IRA if my compensated spouse is over age 70½ but I am younger than 70½?

Yes. As long as the eligibility rules are met.

THE TRADITIONAL IRA

May my spouse or I use the spousal IRA contribution rules to make a contribution to our respective traditional IRAs?

Yes. If either you (or your spouse) has compensation less than the \$3,000/\$3,500 limits for 2004, and the \$4,000/\$4,500 limits for 2005, then under the spousal contributions rules, you (or your spouse) are allowed to make a contribution based on the other's compensation. You (or your spouse) will be eligible to make a spousal contribution to a traditional IRA if the following rules are satisfied:

- You and your spouse must each have your own traditional IRA.
- You must be married as of the end of the tax year (i.e. December 31).
- You must file a joint income tax return.
- You must have compensation includible in gross income which is less than that of your spouse.

Your annual traditional IRA contribution will be limited to the lesser of (1) \$3,000, \$3,500, \$4,000 or \$4,500, as applicable; or (2) the sum of your compensation which is includible in gross income for such year plus the compensation of your spouse, as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA. In addition, when your Roth IRA contribution is aggregated with your traditional IRA contributions and with the contributions of your spouse, the maximum permissible amount for all IRAs will be the lesser of \$6,000, \$6,500, \$7,000, \$8,000, \$8,500 or \$9,000, as applicable, or 100% of your combined incomes.

How much of my IRA contributions will be deductible?

The answer depends upon your tax-filing status, the tax year, whether or not you or your spouse is covered by an employer-sponsored retirement plan at work, and your combined modified adjusted gross income (AGI). The amount you can deduct, in general, is the applicable contribution limit as reduced by the amount you cannot deduct.

The following four categories and the chart at the end illustrate the calculation of what portion of an IRA contribution is deductible for 2005.

Category #1. If neither you nor your spouse is covered under an employer-sponsored retirement plan, and both of you are under age 50, then you are entitled to a full deduction to the extent of your contributions, regardless of your income. For example, your wage income is $150,000 and your spouse earns $95,000. Because neither of you are covered by an employer plan, and both of you are younger than age 50, you can each contribute and deduct the entire $4,000.

Category #2. If both you and your spouse are under age 50, and are covered under an employer-sponsored retirement plan, then you will each be able to deduct your $4,000 IRA contribution as long as your combined modified adjusted gross income (MAGI) is $70,000 or less. The deductions will be prorated if your combined modified adjusted gross income is between $70,000 and $80,000. Neither of you is entitled to deduct any portion of your IRA contribution if your combined modified adjusted gross income exceeds $80,000.

Category #3. If only you are covered under an employer-sponsored plan, but both of you are over age 50, you will be able to deduct your $4,500 IRA contribution as long as you and your spouse's modified adjusted gross income (MAGI) is $70,000 or less. Your deduction will be prorated if your combined modified adjusted gross income is between $70,000 and $80,000. You are not entitled to deduct any portion of your IRA contribution if your combined modified adjusted gross income exceeds $80,000.

Category #4. If you are not covered by an employer-sponsored retirement plan, and you are not older than age 50, but your spouse, who is age 54, is, then you will be able to deduct your $4,500 IRA contribution as long as your combined modified adjusted gross (MAGI) is $150,000 or less. Your deduction will be prorated if your combined modified adjusted gross income is between $150,000 and $160,000. You are not entitled to deduct any portion of your IRA contribution if you and your spouse's modified adjusted gross income exceeds $160,000.

THE ROTH IRA

What is my contribution limit with respect to a spousal contribution to a Roth IRA?

As with the traditional IRA, the contribution limit for a Roth IRA for 2004 is $3,000/$3,500, and for 2005, it is $4,000/$4,500.

If my spouse's and my combined income is too high, can I become ineligible to make a Roth IRA contribution?

Yes. You become ineligible when your combined adjusted gross income is $160,000 or greater. If your combined adjusted gross income is more than $150,000 but less than $160,000, then you are entitled to a prorated contribution amount. You would use the following formula: Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $150,000/$10,000. This will give you a ratio that determines the amount you cannot contribute.

ILLUSTRATIONS

Illustration #1. You are 75 and your wife is 73. She is still working and she has compensation of $26,000 for 2004.

May you each contribute $3,500 to a Roth IRA for 2004? Yes, as long as you meet the requirements for making a spousal contribution.

Illustration #2. It is 2004. You are 68 and your wife is 72. You are still working and have compensation of $21,000, but you are not an active participant. Your wife is no longer employed as she retired 3 years ago.

May she contribute $3,500 to a Roth IRA? Yes.

May she contribute $3,500 to a traditional IRA? No, she is over age 70½.

May you contribute and deduct a $3,500 contribution to a traditional IRA? Yes.

May you contribute $3,500 to a Roth IRA? Yes.

Illustration #3. You are 45 and have compensation of $68,000. You participate in a 401(k) plan. Your wife (43) is self-employed and has net earnings from her business of $56,000. She does not sponsor any type of employer-sponsored retirement plan. Your joint modified adjusted gross income for 2005 is $136,000. What options do you have for making IRA contributions?

Both of you are eligible to contribute $4,000 to your respective IRA. You will not be eligible to claim a deduction for your $4,000, since you are an active participant and your joint MAGI exceeds $80,000. You may either contribute the $4,000 to a Roth IRA or make a nondeductible contribution to a traditional IRA. Most likely you would make a Roth IRA contribution. Your wife is not an active participant, and because your joint MAGI is less than $150,000, her $4,000 contribution to a traditional IRA will be deductible. However, she could make the $4,000 contribution to a Roth IRA. She could also choose to contribute to a traditional IRA and Roth IRA as long as the combined contribution amounts do not exceed $4,000.

Illustration #4. You are 55 and your husband is 62. You are both employed and your modified adjusted gross income is $185,000 for 2005. You are also both active participants in your employer's 401(k) plans.

May you contribute to a Roth IRA? No, the $160,000 limit is exceeded.

May your husband contribute to a Roth IRA? No, the $160,000 limit is exceeded.

May either one of you make a deductible contribution to a traditional IRA? No, the $80,000 limit is exceeded.

May each of you contribute $4,500 to a traditional IRA as a nondeductible contribution? Yes, you will receive the tax benefit of not having to pay tax on the earnings (i.e. tax deferral) until you start to receive distributions from the IRA.

Illustration #5. It is 2005. You are 44 and your husband is 48. You are both active participants in 401(k) plans and you make the maximum 401(k) elective deferral. Your joint MAGI for 2005 is $140,000.

May each of you make a $4,000 contribution to a Roth IRA? Yes, participation in a 401(k) plan has no impact on your spouse's or your eligibility to make a Roth IRA contribution, and your joint MAGI does not exceed the $150,000 limit.

IRA Contribution Deductibility for 2005

(for participants and/or spouses in employer-sponsored retirement plans.)

Married - joint return, both are covered

Below $70,001	Entitled to full deduction
$70,001 - $79,999.99	Entitled to prorated deduction amount - use special formula**
$80,000 or Over***	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $60,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

Below $70,001	Fully Deductible
$70,001-$79,999	Entitled to prorated deduction amount - use special formula**
$80,000 or over***	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $60,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below $150,001	Fully Deductible
$150,001-$159,999	Entitled to prorated deduction amount - use special formula**
$160,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $150,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below $10,000	Entitled to prorated deduction
$10,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of $10 shall be rounded to the next lowest $10. However, an IRA accountholder will be able to deduct a minimum of $200 as long as his or her AGI is not above the phase-out range (base amount plus $10,000).

IRA #151 (11/04)