

# Regular IRA Basics in 2023

Presented by: **Wayne McCullough, LUTCF**  
Regional Brokerage Manager

Prepared for: **Retirement Options**

## Eligibility:

- Single Person:** A single person who has earned income may establish and contribute up to the lesser of \$6,500 or 100% of earned income to an IRA.
- Married Couple:** Up to \$6,500 can be contributed to an IRA for each spouse, even if one spouse has no earned income, provided that the combined compensation of both spouses is at least equal to the combined IRA contribution (maximum of \$13,000).
- Older Workers:** Workers who are age 50 or older may contribute an additional \$1,000 to an IRA in 2023, for a total of \$7,500, provided that earned income is at least equal to the IRA contribution.

## Deductibility:

IRA contributions are fully deducted from income, **unless** you and your spouse are active participants in an employer-sponsored retirement plan, including a tax-deferred annuity (TDA). In that event, the IRA deduction is gradually phased out as follows:

Adjusted Gross Income	Maximum IRA Deductions (2023 Tax Year)				
	Joint Taxpayers			Single Taxpayers	
	One IRA	Two IRAs	Age 50 or Older	One IRA	Age 50 or Older
\$73,000 & under	\$6,500	\$13,000	\$7,500	\$6,500	\$7,500
\$78,000	\$6,500	\$13,000	\$7,500	\$3,250	\$3,750
\$83,000	\$6,500	\$13,000	\$7,500	\$ 0	\$ 0
\$116,000	\$6,500	\$13,000	\$7,500	\$ 0	\$ 0
\$126,000	\$3,250	\$6,500	\$3,750	\$ 0	\$ 0
\$136,000 & above	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

The spouse of an active participant in an employer-sponsored retirement plan who is not covered by his or her own plan can make fully-deductible IRA contributions, if the couple's adjusted gross income is below \$208,000 in 2023 and partially-deductible IRA contributions if between \$208,000 and \$218,000 in 2023.

## Contribution Deadline:

An IRA can be established and contributions made between January 1 of the current tax year and the date the income tax return for the current year is filed (no later than April 15th of the following year).

# Roth IRA Basics in 2023

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## Eligibility: (2023)

Single taxpayers with adjusted gross income of up to \$138,000 or married couples filing jointly with adjusted gross income of up to \$218,000 are eligible to contribute the full \$6,500 annually to a Roth IRA in 2023. Workers who are age 50 or older may contribute an additional \$1,000 to a Roth IRA in 2023, for a total of \$7,500.

The contribution amount in 2023 is gradually reduced to zero for adjusted gross income levels between \$138,000 and \$153,000 for single taxpayers, and between \$218,000 and \$228,000 for joint filers.

Contributions to a Roth IRA can be made so long as the taxpayer has earned income.

## Deductibility:

Contributions to a Roth IRA are non-deductible. Instead, the tax advantages of a Roth IRA are “backloaded.” Earnings on Roth IRA contributions accumulate without tax and distributions may be received tax free.

## Qualified Distributions:

Qualified distributions from a Roth IRA are not included in gross income and are not subject to the additional 10% penalty tax for premature distributions. To be a tax-free qualified distribution:

- The distribution must occur more than five years after the individual first contributed to the Roth IRA; and
- The individual must be at least 59-1/2 years old, disabled, deceased or the funds must be used to purchase a first home (\$10,000 lifetime limit).

## Converting from a Traditional IRA to a Roth IRA:

Income taxes must be paid on the amount that is converted from a traditional IRA to a Roth IRA, but there is no premature distribution penalty tax.

# Regular IRA vs. Roth IRA...A 2023 Comparison

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Eligible individuals can contribute to a tax-deductible traditional IRA, to a non-deductible Roth IRA or to a combination of the two. However, no more than a combined total of \$6,500/\$7,500 if age 50 or older in 2023 (or 100% of earned income if less) may be contributed to these accounts each year.

Individuals who are not eligible for deductible contributions to a traditional IRA or to make contributions to a Roth IRA may still make non-deductible contributions to a traditional IRA and receive the benefits of tax-deferred growth.

**Which type of IRA is best for you depends on your situation, needs and objectives. The comparison that follows is designed to help you make an informed decision.**

	Traditional IRA (tax deductible)	Roth IRA	Traditional IRA (non-deductible)
<b>Deductible Contributions</b>	Yes	No	No <sup>(1)</sup>
<b>Limit on Contributions</b>	Yes (lesser of \$6,500; \$7,500 if age 50 or older; or 100% of earned income)	Yes (lesser of \$6,500; \$7,500 if age 50 or older; or 100% of earned income)	Yes (lesser of \$6,500; \$7,500 if age 50 or older; or 100% of earned income)
<b>Tax-Deferred Growth</b>	Yes	Yes	Yes
<b>Tax-Free Distributions</b>	No (fully taxable)	Yes (if qualified distributions)	No (partially taxable)
<b>Age Limits</b>	No	No	No
<b>Income Limits</b>	No	Yes (contribution phased out if adjusted gross income exceeds specified limits)	No
<b>Minimum Distribution Requirement</b>	Yes	No	Yes
<b>Bankruptcy Protection</b>	<b>Original Owner:</b> Yes, up to \$1,512,350 for all IRAs <b>Inherited IRA:</b> No	<b>Original Owner:</b> Yes, up to \$1,512,350 for all IRAs <b>Inherited IRA:</b> No	<b>Original Owner:</b> Yes, up to \$1,512,350 for all IRAs <b>Inherited IRA:</b> No

*(1) Traditional IRA contributions are fully deductible from income unless an individual and/or spouse are active participants in an employer-sponsored retirement plan, including a tax-deferred annuity (TDA). In that event, the IRA deduction is gradually phased out as adjusted gross income exceeds specified limits, in which case an IRA contribution may be partially deductible or non-deductible.*

# IRA-to-IRA Rollovers

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Regional Brokerage Manager

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## Can Funds Be Transferred Between Traditional IRAs and Between Roth IRAs?

**Yes**, funds can be moved from a **traditional IRA to another traditional IRA** or from a **Roth IRA to another Roth IRA** without any taxes or penalty, assuming certain requirements are met:

- The trustee of the existing IRA transfers the funds directly to the trustee of the receiving IRA (**a trustee to trustee transfer**); can be done as often as you want; **or**
- The funds in the existing IRA are distributed to you and you roll them over to the receiving IRA within 60 days of receiving the distribution (**a rollover**); can only be done once every 365 days.

## Can Funds Be Transferred From a Traditional IRA to a Roth IRA?

**Yes.** All taxpayers have the option of rolling funds over from traditional qualified plans into a Roth IRA. The conversion income must be recognized in the year the rollover or conversion takes place.

## Can Funds Be Transferred From a Roth IRA to a Traditional IRA?

**No**, funds cannot be moved from a **Roth IRA to a traditional IRA**.

# Required Minimum Distributions

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## When Must Required Minimum Distributions Begin?

**In the case of traditional IRAs**, required minimum distributions must begin no later than April 1 of the year following the year in which you reach age 72 and must continue each year thereafter.

**In the case of employer-sponsored qualified retirement plans**, required minimum distributions must begin by April 1 of the year that follows the later of (1) the calendar year in which you reach age 72 or (2) the calendar year in which you retire from employment with the employer maintaining the plan (unless the plan requires that you begin receiving distributions by April 1 of the year that follows the year in which you reach age 72).

If you wait until the year following the year in which you reach age 72 or, in the case of a qualified retirement plan, retire from employment, you must receive a minimum distribution on behalf of the previous year by April 1 of the current year, and a minimum distribution on behalf of the current year by December 31 of that year.

## How Are Required Minimum Distribution Amounts Calculated?

IRS regulations regarding required minimum distributions include a "Uniform Lifetime Table" with "Distribution Period Factors." The appropriate "Distribution Period Factor," based on your age in the distribution year, is divided into your account balance as of the previous December 31 in order to determine your required minimum distribution for the current tax year.

## What Happens if Minimum Distribution Requirements Are Not Met?

The difference between the distribution you should have received and the distribution you actually received is subject to a penalty tax of 50%...an outcome to be avoided! Financial institutions are required to report IRA required minimum distribution amounts to the IRS.

## May I Withdraw More Than the Required Minimum Distribution?

Yes, although minimizing qualified plan and IRA distributions may result in substantial tax savings. Consult your financial advisor for a more in-depth analysis.

**NOTE:** Non-deductible Roth IRAs are not subject to minimum distribution requirements.