There’s still time to make a deductible IRA contribution for 2019

Do you want to save more for retirement on a tax-favored basis? If so, and if you qualify, you can make a deductible traditional IRA contribution for the 2019 tax year between now and the extended tax filing deadline and claim the write-off on your 2019 return. Or you can contribute to a Roth IRA and avoid paying taxes on future withdrawals.

You can potentially make a contribution of up to $6,000 (or $7,000 if you were age 50 or older as of December 31, 2019). If you’re married, your spouse can potentially do the same, thereby doubling your tax benefits.

The deadline for 2019 traditional and Roth contributions for most taxpayers would have been April 15, 2020. However, because of the novel coronavirus (COVID-19) pandemic, the IRS extended the deadline to file 2019 tax returns and make 2019 IRA contributions until July 15, 2020.

Of course, there are some ground rules. You must have enough 2019 earned income (from jobs, self-employment, etc.) to equal or exceed your IRA contributions for the tax year. If you’re married, either spouse can provide the necessary earned income.

Also, deductible IRA contributions are reduced or eliminated if last year’s modified adjusted gross income (MAGI) is too high.

Two contribution types

If you haven’t already maxed out your 2019 IRA contribution limit, consider making one of these three types of contributions by the deadline:

1. Deductible traditional. With traditional IRAs, account growth is tax-deferred and distributions are subject to income tax. If you and your spouse don't participate in an employer-sponsored plan such as a 401(k), the contribution is fully deductible on your 2019 tax return. If you or your spouse do participate in an employer-sponsored plan, your deduction is subject to the following MAGI phaseout:

- For married taxpayers filing jointly, the phaseout range is specific to each spouse based on whether he or she is a participant in an employer-sponsored plan:
    - For a spouse who participated in 2019: $103,000–$123,000.
    - For a spouse who didn't participate in 2019: $193,000-$203,000.
- For single and head-of-household taxpayers participating in an employer-sponsored plan: $64,000–$74,000.

Taxpayers with MAGIs within the applicable range can deduct a partial contribution. But those with MAGIs exceeding the applicable range can't deduct any IRA contribution.

2. Roth. Roth IRA contributions aren't deductible, but qualified distributions — including growth — are tax-free, if you satisfy certain requirements.

Your ability to contribute, however, is subject to a MAGI-based phaseout:

- For married taxpayers filing jointly: $193,000–$203,000.
- For single and head-of-household taxpayers: $122,000–$137,000.

You can make a partial contribution if your 2019 MAGI is within the applicable range, but no contribution if it exceeds the top of the range.

3. Nondeductible traditional. If your income is too high for you to fully benefit from a deductible traditional or a Roth contribution, you may benefit from a nondeductible contribution to a traditional IRA. The account can still grow tax-deferred, and when you take qualified distributions, you'll only be taxed on the growth.

Act soon

Because of the extended deadline, you still have time to make traditional and Roth IRA contributions for 2019 (and you can also contribute for 2020). This is a powerful way to save for retirement on a tax-advantaged basis. Contact us to learn more.