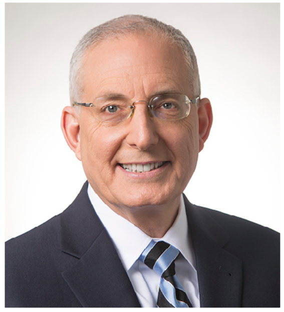

ED SLOTT'S IRA ADVISOR

October 2021

Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

Join the Retirement Planning Conversation

Too Much of a Good Thing?

With so much ebb and flow in the job market since the beginning of the pandemic, many workers are suffering through an uncertain future. Fortunately, while planning for the worst, some have discovered pleasant employment surprises. With these new opportunities comes a need to review and modify retirement savings. For those who made IRA contributions for 2020, October 15, 2021 is an important deadline for possible modifications. This date is the cutoff to fix unwanted IRA contributions, such as those that are no longer deductible, and to correct excess contributions without penalty.

No-Longer-Deductible IRA Contributions

A deductible traditional IRA contribution can lower an IRA owner's tax bill. However, not all IRA contributions can be deducted. Active participants in an employer plan can only deduct IRA contributions when modified adjusted gross income (MAGI) is below a certain dollar amount. (For 2020, the phase-out range for active participants was \$104,000 – \$124,000 for joint filers and \$65,000 – \$75,000 for single filers.) A higher phase-out range applied if the person making the contribution was not covered by a workplace plan, but his spouse was. (For 2020, the phase-out range was \$196,000 – \$206,000 for the spouse not covered by a plan.)

Example 1: After losing his restaurant job in March 2020, Oscar, age 40 and a single filer, made a 2020 traditional IRA contribution of \$6,000 under the assumption that it would be deductible.

However, Oscar found a new job working for Acme Online Meetings and became an active participant in the company's 401(k) plan. His MAGI for 2020 jumped to \$80,000, which was much higher than he expected and over the income limit for deducting a traditional IRA contribution. Since Oscar was an active plan participant in 2020 and his MAGI exceeded the income limit for deductible IRA contributions, Oscar's 2020 contribution is not deductible.

Individuals who find themselves in a "better than anticipated" earnings position have options when they discover a previous IRA contribution can no longer be deducted. There are several strategies that can be leveraged.

For example, IRA owners have the option of removing the contribution and its net income attributable (NIA) by October 15 of the year following the year of the contribution. If fixed properly, the contribution itself is not taxable. Only the NIA is subject to tax (and possibly the 10% early distribution penalty if under age 59½) for the year of the contribution — *not the year of distribution.*