STRAIGHT ANSWERS TO

YOUR IRA QUESTIONS

Traditional IRA

Am I Eligible to Make a Tax-Year Contribution to a Traditional IRA?

If you have compensation, you are eligible to establish and make an annual tax-year (regular) contribution to a traditional IRA, even if you already participate in a qualified pension or profit-sharing plan (including a 401(k)), certain government plans, a tax-sheltered annuity, a simplified employee pension (SEP) plan, or a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan established by an employer. Beginning with the 2020 tax year, there are no age requirements to be eligible to make an annual regular contribution to a traditional IRA.

What is Compensation?

Compensation is the salary or wages you receive as an employee. If you are self-employed, compensation is your net income for personal services performed for the business. Interest, dividends, retirement income, and most rental income are passive income sources and are not considered compensation.

How Much Can I Contribute to My IRA?

You may contribute any amount up to 100 percent of your compensation or the amount set forth in the chart below, whichever is less, to a traditional IRA (or aggregated between a traditional and a Roth IRA). Additionally, if you are age 50 or older by the end of your tax year, you are eligible to make catch-up contributions.

CONTRIBUTION LIMITS

Tax Year	Contribution Limit	Catch-Up Limit	Total Limit for Age 50 and Over
2020	$6,000	$1,000	$7,000
2021	$6,000	$1,000	$7,000
2022 and later years	$6,000 + COLA*	$1,000	$7,000 + COLA*

*Subject to annual cost-of-living adjustments (COLAs), if any.

The amount of any tax refund contributed directly to your IRA is subject to the annual contribution limit.

Do I Pay Taxes on the Earnings of My IRA?

All earnings on your IRA contributions (deductible and/or nondeductible) remain tax-deferred until you take them as withdrawals from the IRA.

Do I Get a Tax Deduction for My Contribution?

Deductibility of your contribution is based on whether you and/or your spouse, if married, are an active

Tax Savings, Tax-Deferred Earnings, and Retirement Security

participant in an employer-sponsored retirement plan. If you are an active participant, the deductible amount is dependent on modified adjusted gross income (MAGI) and income tax-filing status. You may be eligible for the maximum deduction, a partial deduction, or no deduction. Your tax or legal professional can help you determine your actual deduction.

Basic Rules for Determining IRA Deductibility

If you are single and are not an active participant in an employer-sponsored retirement plan, or are married and neither you nor your spouse are active participants, you are eligible for a full deduction no matter how large your income.

If both you and your spouse are active participants, if you are single and an active participant, or if you are not an active participant but your spouse is, you may be eligible for either a full or partial deduction depending on your MAGI.

See your tax or legal professional for assistance in determining IRA deductibility.

What if I'm Not Eligible for a Deductible IRA Contribution?

You can still make nondeductible contributions to your IRA. You may also be eligible for a Roth IRA regular contribution.

How Are the Assets Taxed at Distribution?

You must include the taxable portion of the amount withdrawn as income on your tax return. If you are younger than age 59½, and do not meet one of the exceptions, you must also pay a 10 percent penalty tax for early distribution. The portion of a distribution attributable to nondeductible contributions or rollovers of after-tax assets is not taxable when withdrawn, nor is it subject to the 10 percent early-distribution penalty tax.

If certain requirements are met, you may take a once-in-a-lifetime tax-free IRA distribution to fund your Health Savings Account (HSA) tax-year contribution. We recommend consulting your tax or legal professional to make sure this qualified HSA funding distribution is available and the right financial decision for you.

When Can I Withdraw Assets From My IRA Without Incurring Any Penalties?

You can withdraw assets from your IRA without a 10 percent early-distribution penalty tax any time after you reach age 59½. You can also avoid the early-distribution penalty tax before age 59½:

- If you become disabled
- If the distributions are part of certain periodic payments
- For medical expenses in excess of a certain percentage of your adjusted gross income
- For health insurance premiums if you have been receiving unemployment compensation for at least 12 weeks
- For distributions paid directly to the IRS due to IRS levy
- For qualified reservist distributions
- For eligible higher education expenses
- For a qualified birth or adoption, or
- For a first-time home purchase.

When you reach age 72[1], you must begin to take required minimum distributions or severe tax penalties will apply.

What Happens to My IRA in the Event of My Death?

Your named beneficiary(ies) will receive the entire proceeds of the IRA. Your beneficiary(ies) will not be subject to the 10 percent early-distribution penalty tax. Distributions to your beneficiary(ies) will be made in accordance with the required minimum distribution rules and your IRA agreement.

What is a Spousal IRA?

A married individual can take advantage of a unique IRA contribution rule if he/she has little or no compensation, allowing him/her to make a regular IRA contribution. A married couple must meet two conditions for one spouse to take advantage of the spousal rules. First, the married couple must file a joint federal income tax return. Second, the compensation of the individual benefitting from the spousal rules must be less than the compensation of his/her spouse. A married couple can contribute up to 100 percent of their combined compensation or the contribution limit, whichever is less. The amounts can be divided in any manner between the two spouses' IRAs with no more than the annual limit being contributed to either spouse's IRA. Catch-up contributions are available for spouses age 50 or older and increase the allowable contribution limit.

How Do I Move Assets From One IRA to Another?

There are two methods you can use to move assets from one IRA to another: rollover and transfer. For a rollover, you have 60 calendar days following the date of receipt to roll over the distribution to another IRA. You are limited to one rollover for all of your IRAs per 1-year (12-month) period (that is, only one nontaxable IRA-to-IRA rollover per taxpayer in a year—not one rollover for each IRA per year). A transfer occurs when the assets are moved from one IRA to another IRA without you having direct control or use of the assets. Checks issued to the new custodian/trustee may be delivered by you if the custodian/trustee agrees. Unlike rollovers, there are no time limits or frequency limits on the number of transfers permitted.

How Do I Move Assets From an Employer-Sponsored Retirement Plan (ERP) to a Traditional IRA?

An eligible rollover distribution from one of these plans may be indirectly or directly rolled over to an IRA. Generally, an eligible rollover distribution is any distribution except one that is (1) part of a series of substantially equal periodic payments over your single life expectancy or joint life expectancy of you and your beneficiary or for a specified period of ten years or more, (2) a required minimum distribution, or (3) any hardship distribution.

An indirect rollover occurs when assets distributed from your ERP are sent to you, then subsequently rolled over by you to a traditional IRA within 60 calendar days.

A direct rollover occurs when assets distributed from your ERP are sent to the IRA custodian/trustee for the benefit of your traditional IRA.

Taxable ERP distributions sent to you that are eligible for rollover are subject to a mandatory 20 percent federal income tax withholding at the time of distribution. Assets moved to an IRA via a direct rollover are not subject to withholding.

As with an IRA-to-IRA rollover, an ERP plan recipient generally has 60 calendar days following the date of receipt to indirectly roll over any portion of the distribution to an IRA. The one rollover per 1-year limitation does not apply to direct or indirect rollovers from an ERP to an IRA.

Is There a Contribution Deadline for Funding an IRA?

IRA contributions for a taxable year can be funded any time between the first day of a tax year and the date a tax return is due for that year, excluding extensions. For most taxpayers, this due date is April 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the IRA contribution deadline is the next business day.

The deadline may be extended in some situations. Examples include a federally declared disaster, a terroristic or military action, or service in a hazardous duty area or combat zone.

Are There Other Tax Advantages to Establishing an IRA?

A unique saver's tax credit is available for lower income taxpayers who contribute to an IRA and/or an employer's salary deferral plan. See your tax or legal professional for more information.

How Do I Open an IRA?

See any of our IRA representatives. We can help explain the nature of these accounts in more detail and help you complete the forms necessary to establish your IRA.

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1 *For tax years 2019 and earlier, required minimum distributions had to begin at age 70½.*

This brochure is intended to provide general information concerning federal tax laws governing traditional IRAs. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 590-A, **Contributions to Individual Retirement Arrangements (IRAs)*****, IRS Publication 590-B,*** **Distributions from Individual Retirement Arrangements (IRAs)*****, and the IRS's web site, www.irs.gov, may also provide helpful information.***