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Spousal Individual Retirement Accounts[1]

Lisa Leslie[2]

An Individual Retirement Account (IRA) is a tax-advantaged way to accumulate money for retirement. In order to contribute to an IRA you must have taxable compensation. According to the IRS, taxable compensation include wages, commissions, self-employment income, alimony, and nontaxable combat pay. It does not include income from interest, dividends, pensions, annuities, income from certain partnerships, or profits from property. Your contribution to an IRA cannot be greater than taxable compensation.

The good news is that if you are married and do not have taxable compensation you may still be able to fund an IRA. If your spouse has taxable compensation and you file a joint return, then you can fund an IRA. For 2014 and 2015 the maximum you can contribute if you are under age 50 is $5,500, and for age 50 or older the maximum is $6,500.

A spouse who stays at home to take care of children or other dependents is likely to have reduced Social Security benefits and will not have access to a workplace retirement plan. So a spousal IRA can be an important step to enabling retirement security.

Examples:

In 2015, Mary, age 35, is a stay-at-home mom and has no taxable compensation. She is married to Bob, who has taxable compensation of $75,000, and they file a joint return. Bob is covered by a workplace retirement plan and in 2015 does not contribute to an IRA. Mary can contribute $5,500 to her own IRA.

Jill is 55 and has no taxable compensation in 2015. Jill is married to Jack, who is 49, and they file a joint return reporting that they have taxable compensation of $60,000 in 2015. Jill is allowed to contribute $6,500 to an IRA in 2015 ($5,500 + plus and additional $1,000 contribution because she is over age 50). Jack could also contribute $5,500 to his own IRA.

An individual can open a traditional IRA or a Roth IRA. The difference in the two is the timing of the tax advantage. A contribution to a traditional IRA may reduce taxable income in the current tax year. A contribution to a Roth IRA is not tax deductible, but qualified withdrawals are tax free. In the case of traditional IRAs, the amount that is tax deductible may be reduced or eliminated at higher income levels. In the case of a Roth IRA, the amount you can contribute in a tax year may be reduced or eliminated at higher income levels.

Another difference worth mentioning is that with a traditional IRA you must start withdrawing money at age 70.5. In the case of a Roth IRA, there are no required minimum distributions during the lifetime of the account holder.

Tax Deduction Limits for a Traditional IRA

The amount of the contribution to a traditional IRA that is tax deductible depends on whether you and/or your spouse are covered by a retirement plant at work and on your taxable income. For instance, if your income is $40,000

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and you contribute $5,000 to a traditional IRA, your taxable income may be reduced to $35,000 for that tax year. However, if you or your spouse is "covered" by a workplace retirement plan, you may not be able to deduct the full amount of your contribution. The IRS says you are covered by a workplace retirement plan for the tax year if you or your spouse's employer has:

- A defined-contribution plan and contribution or forfeitures were allocated to that account that tax year.
- An IRA-based workplace plan and there were contributions to that plan in that tax year.
- A defined-benefit plan (pension) and you are eligible to participate that tax year.

If one of the conditions above apply, you can still contribute the maximum, $5,500 (plus an additional $1,000 if age 50 or older) to a traditional IRA, but the portion of the contribution that is tax deductible may be reduced or eliminated completely.

- In 2015, if you are married filing jointly and your 2015 Modified Adjusted Gross Income (MAGI) was less than $98,000, the amount you and your spouse contribute to a traditional IRA is fully tax deductible.
- If your MAGI was more than $98,000 and less than $118,000, a portion of your IRA contribution is deductible.
- If your MAGI is greater than $118,000, your contribution is not tax deductible.

Roth IRA

A Roth IRA is not tax deductible. Even though it is not tax deductible, the IRS sets rules governing how much can be contributed each year. This is because all qualified withdrawals from a Roth IRA are tax free, so you will not pay any taxes on your earnings. In 2015 the amount you can contribute to a Roth depends on your MAGI.

- If your MAGI is less than $183,000 and you are married filing jointly, you can contribute the maximum, $5,500 (plus an additional $1,000 if age 50 or older).
- If married filing jointly and your MAGI is between $183,000 and $193,000, the amount you can contribute is reduced.
- If married filing jointly and your MAGI $193,000 or greater, you are not allowed to contribute to a Roth IRA.

Start Soon, Save Regularly

The best way to build a retirement nest egg is to start as soon as possible and regularly put money in a tax-advantaged retirement account. A person should look to their workplace plan first. A non-working spouse should consider an IRA. You do not need to contribute $5,000 but could start with a smaller amount. Many IRAs can be opened with a minimum of $1,000. Save just $2.75 a day for a year and you will have accumulated $1,000. The important thing is to start as soon as you can and add to your retirement accounts each year.

Additional information about IRAs can found in the publication "Individual Retirement Accounts" (http://edis.ifas.ufl.edu/fy642).

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