MBA Massachusetts Bankers Association

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TAX AND RETIREMENT SAVINGS TIPS FROM THE MASSACHUSETTS BANKERS ASSOCIATION

BOSTON, March 27, 2019 – Last year's enactment of federal tax reforms made significant changes. However, it is not too late to reduce your tax burden in 2018 and save for retirement at the same time. The Massachusetts Bankers Association suggests a few retirement planning tips to help consumers save time, money and some taxes!

There still is time to open an Individual Retirement Arrangement (IRA) for the year 2018. Due to the Patriots Day holiday, the Massachusetts deadline for investing is your tax return due date, April 17. Be sure to tell your bank that the contribution is for 2018. Otherwise, the funds could be applied to 2019.

"Many taxpayers do not realize that they can significantly reduce their tax burden by contributing to an IRA," said Daniel J. Forte, president of the Massachusetts Bankers Association. "For those who qualify, it's very easy and can save you money immediately."

The benefits of investing in an IRA may include:

1. A Tax Deduction: On certain traditional IRA contributions;
2. Tax-deferred Earnings: Earnings can accumulate and compound;
3. Tax-Free Distributions: Only on some distributions of Roth IRA;

Generally, you can contribute up to $5,500 of your earned income for 2018 or up to $6,500 if you were age 50 or older by the end of 2018. You can fund a traditional IRA, a Roth IRA (if you qualify under the earned income limits) or both, but your total contributions cannot be more than these amounts. You can contribute up to $6,000 of your earned income for 2019 or up to $7,000 if you were age 50 or older by the end of 2019.

A few more details:

	Traditional IRA	**Roth IRA**
Timing	Fund up to tax deadline of this year for the previous year.	Fund up to tax deadline of this year for the previous year.

Requirements	Adjusted Gross Income (AGI) is unlimited if you or your spouse are not an active participant in an employer sponsored retirement plan. No contributions if age 70½ or older.
	
	If you are an active participant in an employer plan, phase-out rules apply:
	• Married filing jointly:
	  ○ $101,000 - $121,000
	• Single, Head of Household:
	  ○ $63,000 - $73,000
		AGI must be within the following:
		• Single Filers:
		  ○ AGI must be under $135,000
		  ○ Partial contribution if AGI is between $120,000 - $135,000
		• Married filing jointly:

	If you are not covered but your spouse is covered by a qualified retirement plan the phase out is as follows: ◦ Married filing jointly: ▪ $189,000 - $199,000	◦ AGI must be under $199,000 ◦ Partial contribution if AGI is between $189,000 - $199,000
Rollovers and Conversions	You can make only one rollover from an IRA tax-free in a 12-month period. All or part may be converted to a Roth IRA. Taxes are owed on pre-tax amounts converted. No penalty owed for conversion if taxes paid out-of-pocket.	One Roth IRA may be rolled over tax-free to another Roth IRA.
Deductions	Yes, if neither you nor your spouse is covered by a qualified retirement plan. Yes, if AGI is under IRS defined limits noted above and you or your spouse is covered by a qualified retirement plan. No, if AGI is over IRS defined limits and you or your spouse is covered by a qualified retirement plan. If AGI is over the IRS limits, you may make a non-deductible contribution but it may be more advantageous to contribute to a Roth IRA instead if you do not exceed those AGI limits.	None allowed.
Distributions	Earnings and deductible contributions are fully taxable. Only earnings portion of non-deductible contributions is taxable. Prior to age 59½ are subject to a 10 percent penalty unless an exception applies. Exceptions include disability, First Time Home Purchase, Qualified Higher Education expenses, distributions made to certain unemployed persons to pay for health insurance, distributions to a beneficiary of a deceased IRA owner and others.	Qualified distributions are tax free. Contributions are distributed tax- and penalty-free even if non-qualified. Distributions of earnings before the end of the five year waiting period are exposed to income tax and a 10% penalty. Distributions of conversion amounts before the end of the five year waiting period are subject to a 10% penalty. Distributions made five years after the opening of the account are considered qualified for the following (partial list): • Permanent and total disability. • Attaining the age of 59½. • First Time Home Purchase. • Higher education expenses.
Required Distributions	Distributions required for age 70½ and beyond.	No required distributions during the lifetime of the Roth IRA owner.

More points to consider:

- If you are starting an IRA, you can do it by visiting a bank branch or visit the website of a qualified bank and do it online.
- If you earn more than the IRA limits for tax deduction purposes, an IRA investment may still be worthwhile. You may still find it a good investment because the accumulated gains are not taxable until you withdraw the funds.
- If you have reached the contribution limits for a deductible contribution, still consider adding more.
- The New Net Investment Income Tax could come into play. Net Investment Income does not include distributions from a qualified plan (for example, 401(a), 403(a), 457(b) plans and IRAs. However, these distributions are considered when you determine your Modified Adjusted Gross Income limits.
- You can convert all categories of funds, deductible and nondeductible, to a tax free Roth IRA because the income limits on conversions have been eliminated. The conversion amount that would have been included in income, had it been distributed, is included in income in the year of conversion. Unless certain penalty exceptions are met, distributions may not be made for the five-year period following a conversion.
- With so many American servicemen and women overseas, it is worth noting that combat pay that was non-taxed can be counted as income for making an IRA contribution.
- Certain qualified transfers from IRAs may be made tax-free to Health Savings Accounts (one transfer per lifetime).
- Have you inherited a non-spouse employee's IRA or a qualified plan? There is some good news for you: you can make a trustee to trustee transfer to a newly created "inherited IRA," and pay taxes on distributions over your lifetime, allowing you to accrue more earnings and avoid an up-front tax burden.
- Be sure to keep records of any Roth IRA contributions or conversions. It is critical if you take an "early" distribution from your Roth IRA.
- Consider paying any IRA fees with funds outside of your IRA to avoid depleting the retirement funds.
- An IRA cannot be put into a trust; a trust can only be the beneficiary.

Other Retirement Accounts:

- If you or your spouse is covered by a pension plan, your ability to make a traditional IRA contribution may be reduced or eliminated. For example, if you are covered by a pension plan, you will not be able to make an IRA contribution and still receive the tax deduction if your AGI exceeds $121,000 (assuming you file a joint return). However, if AGI is under $199,000, both work, and one of the spouses is not in an employee-sponsored retirement plan, many times this becomes a missed opportunity. The spouse not in an employee plan is eligible to invest in a deductible IRA.
- Make a point to maximize deductions to your 401(k), 403(b) or 457 plan. For 2018, you can invest up to $18,500. Employees age 50 and older can contribute up to $24,500 in any of these defined contribution plans in 2018.
- For 2018, if you are self-employed, you can now put up to $12,500 in a Simple IRA, ($15,500 if 50 years of age or older). Also, as a self-employed person with a 401(k) plan and no other employees, you can make an elective deferral of up to $18,500 ($24,500 if age 50 or older) as well as an "employer contribution" of up to 25 percent of earned income. The combined elective deferral and employer contribution cannot exceed the lesser of 100 percent of your compensation or $55,000 ($61,000 if age 50 or older).

More Help and Tax Forms

These rules can get complicated and we have covered only the basics here. The benefits of IRA participation are many, however, and if you are interested in learning more, seek help from the IRS, the Massachusetts Department of Revenue, your local bank or CPA. Tax forms and information are available from the Internal Revenue Service website www.irs.gov or the Massachusetts Department of Revenue website www.dor.state.ma.us

The Massachusetts Bankers Association represents approximately 145 commercial, savings and co-operative banks and savings and loan associations with 69,000 employees located in Massachusetts and elsewhere in New England.

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