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TAX AND RETIREMENT SAVINGS TIPS FROM THE MASSACHUSETTS BANKERS ASSOCIATION

BOSTON, June 22, 2020 – The federal and state tax deadline is July 15, 2020, so it is not too late to reduce your tax burden and save for retirement at the same time. The Massachusetts Bankers Association is suggesting a few retirement planning tips to help consumers save time and money and save some taxes, as well.

Because the tax deadline was extended due to COVID-19; you can still open an Individual Retirement Arrangement (IRA) for the year 2019 to reduce taxable income and contribute to your retirement fund. To do so, contact your bank for assistance. The deadline for investing is your tax return due date, so be sure to tell your bank that the contribution is for 2019; otherwise, the funds could be applied to 2020.

"Many people do not realize that most of us can significantly reduce our tax burden by contributing to an IRA," said Daniel J. Forte, president of the Massachusetts Bankers Association. "It's really easy to do 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 $6,000 of your earnings for 2019 or up to $7,000 if you were age 50 or older by the end of 2019. You can fund a traditional IRA, a Roth IRA (if you qualify under the income limits) or both, but your total contributions cannot be more than these amounts. These amounts were increased from $5,500 and $6,500 respectively from 2018.

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	Modified Adjusted Gross Income (MAGI) 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:
		MAGI must be within the following:
		
		• Single filers:
		  ◦ MAGI must be under $137,000
		  ◦ Partial contribution if MAGI is between $122,000 - $137,000
		
		• Married Filing jointly:

	◦ $103,000 - $123,000 • Single, Head of Household: ◦ $64,000 - $74,000 If you are not covered but your spouse is covered by a qualified retirement plan the phase out is as follows: • Married filing jointly: -$193,000 - $203,000	◦ MAGI must be under $203,000 ◦ Partical contribution if MAGI is between $193,000 -$203,000
Rollovers and Conversions	You can make only one rollover from an IRA into another 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 MAGI is under IRS defined limits noted above and you or your spouse is covered by a qualified retirement plan. No, if MAGI is over IRS defined limits and you or your spouse is covered by a qualified retirement plan. If MAGI 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 exceed those MAGI limits.	None allowed.
Distributions	Earnings and deductible contributions are fully taxable. Only earnings portion of non-deductible contributions is taxable	Qualified distributions are tax free. Contributions are distributed tax- and penalty-free even if non-qualified.

	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. In addition, the CARES Act provides for a penalty-free distribution of up to $100,000 for coronavirus related expenses. This waiver applies to distributions taken between January 1, 2020 and December 31, 2020. Income taxes on a coronavirus-related distribution can be paid over a three-year period and the individual has up to three years to recontribute the amount to a plan or IRA.	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 59 ½ • First Time Home Purchase • Higher education expenses In addition, the CARES Act provides for a penalty-free distribution of up to $100,000 for coronavirus related expenses. This waiver applies to distributions taken between January 1, 2020 and December 31, 2020.
Required Distributions	Distributions required for age 72 and beyond. **However, required minimum distributions have been suspended for 2020.** Generally, a retirement plan owner or IRA owner must take required minimum distributions (RMDs) upon reaching the age of 72. This requirement has been waived for 2020 for defined contribution plans and IRAs. If you already took the 2020 distribution, you have up to 60 days to return the distribution to an IRA (or another qualified retirement account) without owing tax on it.	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, you may still find an IRA contribution to be 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, consider adding more.
- The 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.
- Excess elective deferrals to a workplace-based retirement plan for 2019 must be removed from the retirement plan no later than April 15th, 2020 in order to exclude the distributions from your income. This deadline was not extended to July 15th.
- Although required minimum distributions are suspended for 2020, it may make sense to still take the distribution now (especially if the pandemic and economic fallout has dropped you into a lower tax bracket).

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 MAGI exceeds $123,000 (assuming you file a joint return). However, if MAGI is under $203,000, 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 plans. For 2019, you can invest up to $19,000 and $19,500 in 2020. Employees age 50 and older can contribute up to $25,000 to any of these defined contribution plans in 2019.
- For 2019, if you are self-employed, you can now put up to $13,000 in a Simple IRA, ($16,000 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 $19,000 ($25,000 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 $56,000 ($62,000 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. The preferred method to obtaining tax forms and information is from the Internal Revenue Service website or the Massachusetts Department of Revenue website. Traditional "hardcopy" Tax forms may sometimes be available at your local bank, post office or library, but these sources for forms are being phased out.

The Massachusetts Bankers Association represents approximately 135 commercial, savings, co-operative and federal savings banks and savings and loan associations with $380 billion in local assets, 72,000 employees across Massachusetts and New England, over 2,000 banking locations, more than 4,500 ATMs, and donate more than $105 million annually to social agencies and charitable organizations across the Commonwealth.

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