*Tax & Business Alert* – March 2022

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**Abstract:** It may not be too late to lower your 2021 tax bill. Qualified individuals can still make deductible contributions to traditional IRAs until the tax filing date of April 18, 2022, and claim the deduction for 2021. This article provides details, including alternate strategies.

**Slim your 2021 tax bill by fattening your IRA**

If you didn’t get around to contributing to an IRA in 2021 and you’re looking for ways to lower your tax bill, you may still have an option. Qualified taxpayers can make deductible contributions to traditional IRAs until the tax filing date of April 18, 2022, and claim the benefit on their 2021 returns.

**Who is eligible?**

You can make a deductible contribution to a traditional IRA if:

* You (and your spouse) aren’t active participants in an employer-sponsored retirement plan, or
* You (or your spouse) are active participants in an employer plan, but your modified adjusted gross income (AGI) doesn’t exceed certain levels that vary from year to year by filing status.

For 2021, joint tax return filers who are covered by an employer plan have a deductible IRA contribution phaseout range of $105,000 to $125,000 of modified AGI. For taxpayers who are single or a head of household, the phaseout range is $66,000 to $76,000. For married filing separately, the phaseout range is $0 to $10,000. For 2021, if you’re not an active participant in an employer-sponsored retirement plan, but your spouse is, the deductible IRA contribution phaseout range is $198,000 to $208,000 of modified AGI.

Deductible IRA contributions reduce your current tax bill, and earnings within the IRA are tax deferred. However, every dollar you take out is taxed in full (and subject to a 10% penalty before age 59½, unless an exception applies).

IRAs are often referred to as “traditional IRAs” as opposed to Roth IRAs. You also have until April 18 to make a Roth IRA contribution, though unlike traditional IRA contributions, Roth IRA contributions aren’t deductible. Withdrawals from a Roth IRA are tax-free if the account has been open at least five years and you’re age 59½ or older. (Contributions to a Roth IRA are subject to income limits.)

**What’s the contribution limit?**

For 2021, if you’re eligible, you can make deductible traditional IRA contributions of up to $6,000 ($7,000 if you’re 50 or over). In addition, small business owners can set up and contribute to a Simplified Employee Pension (SEP) plan up until the due date for their returns, including extensions. For 2021, the maximum contribution you can make to a SEP is $58,000.

For more information about how IRAs or SEPs can help you save the maximum tax-advantaged amount for retirement, contact us — or ask during your return preparation appointment.

Sidebar

**Two alternate IRA strategies for possible tax saving**

**1. Turn a nondeductible Roth IRA contribution into a deductible IRA contribution.** Did you make a Roth IRA contribution in 2021? That’s helpful in the future when you take tax-free payouts from the account, but the contribution isn’t deductible. If a deduction is important now, you can convert a Roth IRA contribution into a traditional IRA contribution using a “recharacterization” mechanism. Assuming you meet the requirements, you may then take a traditional IRA deduction.

**2. Make a deductible IRA contribution, even if you don’t work. Generally, you must have wages or other earned income to make a deductible traditional IRA contribution.** An exception applies if your spouse is the breadwinner and you’re a homemaker. If so, you may be able to take advantage of a spousal IRA.

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