IRA Deadline is Monday, April 15, 2019: Things You Should Know

03.25.19

Not only is the 2018 individual tax return filing deadline April 15, it is also the deadline to make an Individual Retirement Account (IRA) contribution. Unlike the tax return filing, there is no extension of time to make a 2018 IRA contribution.

Although IRAs seem fairly straightforward, each year we see some mistakes made. Below are basic rules for the different types of IRAs.

Traditional IRAs

In order to make a traditional IRA contribution, the individual, or, if married filing jointly, the individual's spouse, must have earned income (compensation). Individuals over age 70.5 at the end of 2018 are not eligible to make a traditional IRA contribution. For 2018, the IRA contribution limit is the lesser of 1) $5,500, plus $1,000 if over age 50 as of December 31, 2018, or 2) compensation.

A traditional IRA contribution can either be deductible or nondeductible. Individuals, or their spouse's if filing jointly, covered by an employer retirement plan in 2018 are subject to complex, income-based limitations for deductible contributions. Individuals not eligible to make a deductible IRA contribution due to income-based limitations can elect to make a nondeductible IRA contribution. The same contribution amount limits described above for deductible IRA contributions apply to nondeductible IRA contributions.

Roth IRAs

Roth IRAs have the same contribution amount limits as traditional IRAs, but, unlike traditional IRAs, there are no age restrictions on who is eligible to contribute. Higher income individuals are not eligible to make a Roth IRA contribution. For 2018, married joint filers' ability to fund a Roth IRA begins to phase out at the modified adjusted gross income (AGI) of $189,000 and the beginning of the modified AGI phase out limit for single or head of household filers is $120,000. Roth IRA contributions are not deductible in computing individual taxable income.

Planning Tip: Roth IRAs can be a good choice for students who have minimal income from part-time work or summer jobs. Very often such taxpayers have little or no tax liability. In this situation, there is little or no current tax benefit to making a traditional IRA contribution. The Roth IRA for the teenager will hopefully grow for more than 50 years, thus providing a nice tax-free source of funds. Keep in mind that the Roth IRA contribution is limited to the taxpayer's 2018 compensation. If the taxpayer is not otherwise required to file a tax return for 2018, making a Roth IRA does not trigger a filing a requirement. If the parent funds the Roth IRA on behalf of the student, the current year gift counts against the parent's annual $15,000 gift tax exclusion.

SEP-IRAs

Individuals with self-employment (SE) income may be eligible to make a so-called SEP-IRA contribution of up to 20% of their net SE income with a maximum contribution of $55,000. Unlike traditional and Roth IRAs, the deadline for SEP-IRA contributions is the due date of the individual's tax return, including extensions. For a detailed discussion of additional rules regarding SEP-IRAs, we recommend that you contact your tax advisor.

BPM is Here to Assist You

For more information on this topic, please contact your BPM advisor, call (415) 421-5757, or email bpm@bpmcpa.com. You may also monitor our website at bpmcpa.com/news-events for the latest information.