IRAs

Traditional Individual Retirement Accounts

2014 and 2015

Questions & Answers

What is the purpose of this brochure?

It summarizes the primary laws governing traditional IRAs for 2014 and 2015.

What is a traditional Individual Retirement Account (traditional IRA)?

A traditional IRA is a special tax-deferred savings account authorized by Internal Revenue Code section 408. It is a unique and simple way to encourage people to save money for retirement. This brochure discusses the features of the traditional IRA. Other brochures discuss the features of the Roth IRA, Coverdell Education Savings Accounts, SEP-IRA and the SIMPLE-IRA.

What are the tax benefits realized from a traditional IRA?

Generally for 2014 and 2015 you may add up to $5,500/ $6,500 of earned income to your IRA account each year and have it be either fully or partially tax deductible (see Deductibility Chart). If your contribution is tax deductible, then you receive two tax benefits: 1) an immediate tax savings, because you will pay fewer taxes because of the deduction and 2) the earnings generated by the IRA funds are not taxed until distributed. If your contribution is not tax deductible, you still receive the tax benefit of tax deferral on the IRA's earnings. You may also qualify for a tax credit.

THE CONTRIBUTION RULES

When do I have to establish the traditional IRA?

You have until the due date (without extensions) for filing your federal income tax return, normally April 15, to establish and fund your traditional IRA for the previous tax year.

Am I eligible to contribute to a traditional IRA?

You are eligible for a regular contribution if you do not reach age 70½ in the calendar year for which you wish to make the contribution, and you have compensation (income earned from performing material personal services). You may also qualify for a rollover or a transfer contribution.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will NOT be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your com-

pensation, or $5,500, for 2014 and $5,500 for 2015, as reduced by any amount you contributed to your Roth IRA.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or $6,500, for 2014 and $6,500 for 2015, as reduced by any amount you contributed to your Roth IRA for the same tax year.

May I contribute to my traditional IRA and also my Roth IRA for the same year?

Yes, but your aggregate traditional IRA and Roth IRA contributions are subject to the applicable contribution limit for such year. For example, if your contribution limit is $5,500, then the sum of your traditional IRA contributions and your Roth IRA contributions must be $5,500 or less.

May my spouse or I use the spousal IRA contribution rules to make a contribution to our respective traditional IRAs?

Yes. One of you will be eligible to make a spousal contribution to a traditional IRA if the following rules are satisfied:

- You and your spouse must each have your own traditional IRA.
- You must be married as of the end of the tax year (i.e. December 31).
- You must file a joint income tax return.
- You must have compensation includible in gross income which is less than that of your spouse.

Your annual traditional IRA contribution will be limited to the lesser of (1) $5,500/$6,500, as applicable; or (2) the sum of your compensation which is includible in gross income for such year, plus the compensation of your spouse, as reduced by your spouse's contribution to his or her own traditional IRA and Roth IRA.

To what extent will I be entitled to a tax deduction for my 2014 and 2015 IRA contribution?

The answer depends upon your filing status, whether or not you and/or your spouse is covered by an employer-sponsored retirement plan at work, and your modified adjusted gross income (AGI). The amount you can deduct is the contribution limit, as applicable, for 2014 and 2015 as reduced by the amount you cannot deduct.

If you are single and you are not covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are married and neither you nor your spouse is covered under an employer-sponsored retirement plan, then you are entitled to a full deduction to the extent of your contributions, regardless of your income.

If you are single and you are covered under an employer-sponsored retirement plan, or if you are married and either you or your spouse is covered under an employer-sponsored retirement plan, then you will be entitled to only a partial deduction or no deduction, as summarized in the IRA Contribution Deductibility chart produced later.

If you are a married person who is not covered by a pension plan at work, you may well be entitled to deduct your IRA contribution even though your spouse is covered by a pension plan. See the "Married - joint return, but only your spouse is covered" section of the chart. For example, your spouse earns $77,000 and participates in a 401(k) plan, and you earn $61,000, but you are not covered by any pension plan. You are age 56. If you contribute $6,500 in 2014 and $6,500 in 2015 to your IRA, then you will be able to claim the full amount as a deduction on your joint returns. Many individuals mistakenly believe that they are ineligible to make a deductible IRA contribution when their spouse participates in a 401(k) plan.

Can I make nondeductible contributions?

Yes. You may make nondeductible contributions when you are ineligible to claim a tax deduction or you choose not to claim a tax deduction.

To what extent may I be entitled to a tax credit for my IRA contributions?

A formula is used to calculate your credit. Your credit may vary from $1 to $1,000, depending on the amount you contribute to your IRA, your filing status and your modified adjusted gross income. If you meet the following requirements for a given tax year, then you will qualify for this credit:

1. Be at least 18 years of age as of December 31 of such year.
2. Not be a dependent on someone else's tax return
3. Not be a student as defined in Internal Revenue Code section 25B(c)
4. Have adjusted gross income under certain limits which are based on your filing status:*

	2014	2015
Joint filers	$59,000.01	$60,000.01
Head-of-Household	$44,250.01	$45,000.01
All other filers (including Married, filing separately, and single)	$29,500.01	$30,000.01

5. Must not have received certain distributions which disqualify you from claiming the credit, or certain distributions which were made to your spouse. Because of the complexity of this credit, you will want to review IRS Publication 590 for a complete explanation.

* These income amounts are adjusted for inflation each year.

THE WITHDRAWAL RULES

When may I start to withdraw money or assets from my traditional IRA?

You may begin withdrawals at any time. You will want to understand the income tax consequences.

What are the tax consequences of an IRA distribution?

If you have not made any nondeductible contributions, then the distributions will be taxable as ordinary income. However, if you have made both deductible and nondeductible contributions, you will not generally have to pay income tax pro rata on the part of your distribution representing your nondeductible contributions. Consult your tax preparer or see IRS Publication 590. Withdrawals from your IRA before you reach age 59½ will generally result in an additional tax of 10% of the taxable amount withdrawn. This 10% tax is in addition to the regular income tax on the amount withdrawn.

Are there exceptions to the 10% additional tax?

Yes. You will not owe the 10% additional tax if you are in one of the following situations. Refer to IRS Publication 590 for an explanation of the exceptions.

- You convert the amount to a Roth IRA.
- You have unreimbursed medical expenses that are more than 10.0% of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance when you are unemployed.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving periodic distributions over a term equal to your life expectancy.

- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is of contributions returned before the due date of your tax return.
- The distribution is due to an IRS levy.

When am I required to start withdrawing the money in my IRA?

You must make a withdrawal of a minimum amount by April 1 of the year following the calendar year in which you reach age 70½, and by each December 31 thereafter. The minimum amount is calculated using the IRA minimum distribution rules then in effect.

What happens if I fail to withdraw the required minimum distribution?

Current federal income tax law provides a penalty tax of 50% of the amount which was required to be distributed, but which was not. For example, if your required minimum distribution for a year is $700, and you withdrew nothing, you would owe a tax of $350.

Is my IRA insured by the FDIC?

Yes, if you have invested your IRA funds in savings or time deposits as offered by an insured institution. FDIC insurance applies to certain "deposits" of an insured institution such as saving accounts and time deposits. Some investments, such as mutual funds, stocks, and bonds are not eligible for FDIC insurance coverage. The insured amount for a qualifying depositor with IRAs, Roth IRAs, SEPs, SIMPLEs, self-directed Keogh accounts, 457 plans and certain self-directed employee benefit plan accounts is $250,000. All such accounts must be aggregated. Amounts in excess of $250,000 are not insured. However, separate coverage will apply for your other non-IRA/pension accounts and Coverdell Education Savings Accounts, because such deposits are held in a different right and capacity.

What happens to my IRA when I die?

The funds will belong to the individual(s) or entities you have designated to be the beneficiary(ies) of your IRA. There are rules requiring your beneficiary(ies) to withdraw certain minimum distributions by various deadlines. If such distributions do not occur by the appropriate deadline, then your beneficiary will owe the 50% excise tax. You may want to inform

your beneficiary(ies) that he or she is a beneficiary of your IRA. The rules as to when and how much must be withdrawn by your beneficiary(ies) will depend on whether you die before or after your required beginning date. In general, your beneficiary may choose to withdraw the funds over his or her life expectancy. You may wish to refer to IRS Publication 590, Individual Retirement Arrangements, for a discussion of the rules applying to the beneficiary. The rules which apply to a beneficiary will not apply to your spouse if he or she is your sole primary beneficiary and he or she elects to treat your IRA as his or her own IRA. In this case, your spouse will not be required to start withdrawing funds until he or she becomes subject to the required distribution rules as an IRA accountholder.

THE CONVERSION RULES

Why convert my traditional IRA to a Roth IRA?

The income earned by the funds within a Roth IRA will be tax free to you or your beneficiaries when withdrawn as a qualified distribution. The income earned within your traditional IRA is always taxable when withdrawn.

Example: You have $10,000 in your traditional IRA as of January 2014. You can certainly leave the funds within your traditional IRA and allow them to grow. Assume this $10,000 grows in value to $50,000 over the next 18 years.

The $40,000 of income will be taxable whenever it is withdrawn from a traditional IRA. However, if you had converted or moved this $10,000 to a Roth IRA, the $40,000 of income will never be taxed if the funds are withdrawn as a qualified distribution.

No matter how great the income or how wealthy you are, a distribution from a Roth IRA is tax-free if it is a qualified distribution. As discussed below, you are generally required to pay income tax with respect to the $10,000 for the year the conversion occurs.

How do I convert my traditional IRA?

You can convert amounts from your traditional IRA to a Roth IRA by using any of the following three methods. The first method is the standard rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days of the distribution. The second method is a trustee-to-trustee transfer. If permissible, you may direct the custodian/trustee of your traditional IRA to transfer an amount from the traditional IRA to the custodian/trustee of your Roth IRA. The third method is an inter-

nal movement. You direct the custodian/trustee of your traditional IRA to transfer an amount from your traditional IRA to your Roth IRA. Regardless of the conversion method, IRS reporting forms must be prepared.

Who is eligible to do a conversion for years 2014 and/or 2015?

Anyone having a traditional IRA is eligible to convert funds from their traditional IRA to a Roth IRA. An individual's RMD for the current year is ineligible to be converted.

What income tax will I owe because of a conversion made in 2014 or subsequent years?

You must include in your gross income for the current year (at the applicable marginal tax rate) the amount you contribute to your Roth IRA.

What distributions from a Roth IRA will be tax free?

"Qualified distributions" will be tax free. To be a qualified distribution, the distribution must occur after you have met the five-year holding requirement, and the distribution is made to you (1) after you have attained age 59½, (2) after you have become disabled, (3) because of a first-time home purchase, or (4) to your beneficiary after your death.

When will I have met the 5-year rule?

The five-year period is considered to start on January 1 of the year for which the first contribution to a Roth IRA is made. All Roth IRA contributions, including rollovers and conversions, are aggregated for purposes of satisfying the 5-year rule.

Will I owe the 10% additional tax for my conversion if I am under the age of 59½?

No.

How do I establish my traditional IRA and/or Roth IRA?

Just come in and talk with us.

The information provided in this brochure is not intended to be legal or tax advice. You should consult your attorney or tax advisor for information that relates to your specific circumstances.

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IRA Contribution Deductibility Chart for 2014

(for participants and/or spouses in employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

Below $60,001	Entitled to full deduction
$60,001-$69,999.99	Entitled to prorated deduction amount - use special formula**
$70,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $60,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

Below $96,001	Entitled to full deduction
$96,001 - $115,999.99	Entitled to prorated deduction amount - use special formula**
$116,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $96,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

Below $96,001	Fully Deductible
$96,001-$115,999.99	Entitled to prorated deduction amount - use special formula**
$116,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $96,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below $181,001	Fully Deductible
$181,001-$190,999.99	Entitled to prorated deduction amount - use special formula**
$191,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $191,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below $10,000	Entitled to prorated deduction amount - use special formula**
$10,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of $10 shall be rounded to the next lowest $10.

However, an IRA accountholder will be able to deduct a minimum of $200 as long as his or her AGI is not above the phase-out range (base amount plus $10,000).

IRA Contribution Deductibility Chart for 2015

(for participants and/or spouses in employer-sponsored retirement plans.)

Amount of Modified AGI - (Combined modified AGI if married)

Single

Below $61,001	Entitled to full deduction
$61,001-$70,999.99	Entitled to prorated deduction amount - use special formula**
$71,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $61,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, both are covered

Below $98,001	Entitled to full deduction
$98,001 - $117,999.99	Entitled to prorated deduction amount - use special formula**
$118,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $98,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only you are covered

Below $98,001	Fully Deductible
$98,001-$117,999.99	Entitled to prorated deduction amount - use special formula**
$118,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $98,000/$20,000. This will give you a ratio that determines the amount you cannot deduct.*

Married - joint return, but only your spouse is covered

Below $183,001	Fully Deductible
$183,001-$192,999.99	Entitled to prorated deduction amount - use special formula**
$193,000 or over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $193,000/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

Married Filing Separately

Below $10,000	Entitled to prorated deduction amount - use special formula**
$10,000 or Over	No deduction permissible

**Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot deduct.*

*Any amount determined under this formula which is not a multiple of $10 shall be rounded to the next lowest $10.

However, an IRA accountholder will be able to deduct a minimum of $200 as long as his or her AGI is not above the phase-out range (base amount plus $10,000).