

Volunteer Tax Alert

2012-05 April 2, 2012

Individual Retirement Account (IRA) Deductions

Concern: Volunteers should determine if a taxpayer's contributions to an IRA are eligible for an IRA deduction. Only contributions to a traditional IRA are eligible for the IRA deduction. A traditional IRA is any IRA that is not a Roth or SIMPLE IRA.

To be eligible for an IRA deduction, the taxpayer (and/or spouse, if applicable):

- Contributed to a traditional IRA by the due date for filing the return, not including extensions,
- Was under 70 ½ years of age at the end of 2011, and
- Had taxable compensation

Contribution and Deduction Limits:

- Contributions can be made to a traditional IRA through April 17, 2012 to qualify for a deduction on the 2011 tax return.
- Total IRA contributions (combined contributions to all IRAs including traditional and Roth) cannot be more than the smaller of:
 - \$5,000 (\$6,000 for a person age 50 or older by the end of the tax year), or
 - The taxpayer's taxable compensation.
- For members of the Armed Forces, compensation includes nontaxable combat pay.
- An IRA deduction may be phased out depending on the taxpayer's income, filing status, and whether the taxpayer (or spouse) is covered by a retirement plan at work.

Required Documentation:

- Taxpayers may file a return claiming a traditional IRA contribution before the contribution is actually made. Remind taxpayers to make their 2011 contribution by the filing deadline.
- Review Form 13614-C and ask taxpayers if they made or plan to make an IRA contribution.
- IRA custodians will file Form 5498 with the IRS in May reporting any IRA contributions for the prior tax year. Taxpayers should save this form with their records when they receive it.

Important Reminders:

- Taxpayers may be able to deduct some or all of their contributions to a traditional IRA.
- Although a taxpayer may have multiple IRA accounts with different financial institutions, all of their traditional IRA accounts are treated as one single IRA.
- If the taxpayer and spouse meet the general eligibility requirements, use the IRA deduction worksheet in the tax software to determine the amount of the adjustment.
- Both traditional and Roth IRA contributions may also be eligible for the retirement savings contributions credit.

For more information, review the following resources:

- Publication 4012, *VITA/TCE Volunteer Resource Guide*
- Publication 17, *Your Federal Income Tax*,
- Publication 590, *Individual Retirement Arrangements*, or
- The VITA hotline at 1-800-829-8482

If you have any questions, please discuss them with your site coordinator, contact your local IRS SPEC relationship manager, or e-mail partner@irs.gov.

Thank you for volunteering to serve your community and for your dedication to providing top QUALITY service!