There still might be time to cut your tax bill with IRAs

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If you're getting ready to file your 2019 tax return, and your tax bill is higher than you'd like, there may still be an opportunity to lower it. If you qualify, you can make a deductible contribution to a traditional IRA right up until the Wednesday, April 15, 2020, filing date and benefit from the resulting tax savings on your 2019 return.

Do you qualify?

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

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

For 2019, if you're a joint tax return filer covered by an employer plan, your deductible IRA contribution phases out over $103,000 to $123,000 of modified AGI. If you're single or a head of household, the phaseout range is $64,000 to $74,000 for 2019. For married filing separately, the phaseout range is $0 to $10,000. For 2019, if you're not an active participant in an employer-sponsored retirement plan, but your spouse is, your deductible IRA contribution phases out with modified AGI of between $193,000 and $203,000.

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 59-1/2, unless one of several exceptions apply).

IRAs often are referred to as "traditional IRAs" to distinguish them from Roth IRAs. You also have until April 15 to make a Roth IRA contribution. But while contributions to a traditional IRA are deductible, contributions to a Roth IRA aren't. However, withdrawals from a Roth IRA are tax-free as long as the account has been open at least five years and you're age 59-1/2 or older.

Here are a couple other IRA strategies that might help you save tax.

1. Turn a nondeductible Roth IRA contribution into a deductible IRA contribution. Did you make a Roth IRA contribution in 2019? That may help you years down the road when you take tax-free payouts from the account. However, the contribution isn't deductible. If you realize you need the deduction that a traditional IRA contribution provides, you can change your mind and turn that Roth IRA contribution into a traditional IRA contribution via the "recharacterization" mechanism. The traditional IRA deduction is then yours if you meet the requirements described above.

2. Make a deductible IRA contribution, even if you don't work. In general, you can't make a deductible traditional IRA contribution unless you have wages or other earned income. However, an exception applies if your spouse is the breadwinner and you manage the home front. In this case, you may be able to take advantage of a spousal IRA.

How much can you contribute?

For 2019 if you're qualified, you can make a deductible traditional IRA contribution 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 2019, the maximum contribution you can make to a SEP account is $56,000.

If you'd like more information about whether you can contribute to an IRA or SEP, please contact us or ask your income tax preparer about it when he or she is preparing your return. We'd be happy to explain the rules and help you save the maximum tax-advantaged amount for retirement.

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