



# Individual Retirement Accounts Traditional IRAs

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## Traditional IRAs

### IRA Contribution Limits—2023

*Lesser of: Taxable compensation for the year, or:*

|                       |         |
|-----------------------|---------|
| Under age 50 .....    | \$6,500 |
| Age 50 or older ..... | \$7,500 |

### What is an IRA?

An IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An IRA is referred to as a traditional IRA if it is not a Roth IRA or a SIMPLE IRA. Traditional IRAs include SEP IRAs.

### Traditional IRA tax advantages and rules:

- Contributions to an IRA may be fully or partially deductible.
- Amounts in your IRA (including earnings and gains) are not taxed until distributed.
- There is no limit on how much you can earn and still contribute (however, contributions are not deductible above certain amounts).
- There is no age limit for contributions.
- Required minimum distributions begin after age 73.
- Early distributions (before you are age 59½) are subject to a 10% additional tax. Exceptions apply.
- Distributions are taxed as ordinary income.

### Who Can Contribute to an IRA?

Any individual can set up a traditional IRA if he or she receives taxable compensation during the year. An individual can have a traditional IRA even if covered by an employer-sponsored retirement plan. However, the deductible amount of contributions to a traditional IRA may be phased out. See *Reduced IRA Deduction*, next page.

### Compensation for IRA Purposes

| <i>Includes</i>  | <i>Does Not Include</i>   |
|--|---|
| <ul style="list-style-type: none"> <li>• Wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services.</li> <li>• Commissions.</li> <li>• Self-employment income.</li> <li>• Nontaxable combat pay.</li> <li>• Taxable alimony and separate maintenance payments received.</li> <li>• Taxable scholarship and fellowship payments (if shown in box 1 of Form W-2).</li> </ul> | <ul style="list-style-type: none"> <li>• Earnings and profits from property, such as rental income.</li> <li>• Interest and dividend income.</li> <li>• Pension or annuity income.</li> <li>• Deferred compensation.</li> <li>• Income from certain partnerships.</li> <li>• Conservation Reserve Program (CRP) payments.</li> <li>• Any amounts (other than combat pay) excluded from income.</li> </ul> |

**Contribution limit.** Contributions to IRAs are limited to the lesser of the individual's compensation (or spouse's compensation under a spousal IRA), or \$6,500 (\$7,500 for age 50 or older).

Total contributions are combined with Roth IRA contributions to determine limits. For example, a \$1,000 contribution to a Roth IRA will reduce total contributions allowable to a traditional IRA by \$1,000.

**Spousal IRA.** If both spouses have compensation, each can set up a separate IRA. Spouses cannot participate in the same IRA. However, if MFJ, and one spouse's compensation is less than the contribution limit, the lower-income spouse can use the compensation of the other spouse to qualify as only one spouse needs to have compensation.

**Example:** Jill is a full-time student under age 50 with no taxable compensation. Her husband, Barry, is under age 50 and has taxable compensation of \$30,000. If they file a joint return, both Barry and Jill can each contribute \$6,500 in 2023 to their own IRAs.