



Saving for Retirement

Sprague & Jackson

ACCOUNTANTS AND ENROLLED AGENTS

The Seneca Building • 121 E Seneca St • Ithaca, NY 14850

David W. Sprague, EA, ABA Principal
Angie Jackson, EA, MSA Principal

Phone: (607) 273-5322

Fax: (607) 273-8138

Email: Admin@sprjac.com

Traditional IRA

A traditional IRA is any IRA that is not a Roth IRA or a SIMPLE IRA. You can set up a traditional IRA if you receive taxable compensation during the year. You 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.

- **Contribution limit.** For 2023, contributions to IRAs are limited to the lesser of your compensation (or spouse's compensation under a spousal IRA), or \$6,500 (\$7,500 age 50 or older).
- **Spousal IRA.** If both spouses have compensation, each can set up a separate IRA. Spouses cannot participate in the same IRA. If Married Filing Jointly, 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.
- **SEP IRA.** A SEP is a traditional IRA with different per year contribution limits. An employer (or self-employed individual) makes deductible contributions to a traditional IRA on behalf of the employee (or self-employed individual). Distributions are generally subject to the same rules that apply to traditional IRAs.

Prohibited Transactions Involving IRAs

Penalties apply when IRA funds are used in prohibited transactions. A prohibited transaction is any improper use of traditional IRA funds by the participant, the beneficiary, or a disqualified person. The following are examples of prohibited transactions.

- Borrowing money from an IRA.
- Selling property to an IRA.
- Receiving unreasonable compensation for managing an IRA.

- Using an IRA as security for a loan.
- Buying property for personal use (present or future) with IRA funds.
- Investing in collectibles.

Roth IRA

A Roth IRA is subject to the same rules as a traditional IRA except for the following.

- Contributions are nondeductible. Thus, your participation in an employer plan is irrelevant.
- If certain requirements are satisfied, distributions are tax free.
- The required minimum distribution rules do not apply. Distributions are not required until your death.
- Contributions phase out for 2023 when modified adjusted gross income is \$218,000 to \$228,000 for Married Filing Jointly, and Qualifying Surviving Spouse \$138,000 to \$153,000 for Single and Head of Household, and \$0 to \$10,000 for Married Filing Separately (if spouses live together).
- Neither a SEP IRA nor a SIMPLE IRA can be set up as a Roth IRA.

SIMPLE IRAs

- **Eligible employers.** Employers can set up a SIMPLE IRA for employees if they have 100 or fewer employees who received \$5,000 or more in compensation from the employer in the preceding year. The employer cannot maintain another qualified plan (except for certain union employees). The 100-employee limit must be met each year to continue contributing to the plan. A two-year grace period applies once this limit is exceeded.