Traditional IRA

Why save for retirement? As uncertainty grows around the availability of employer-sponsored pension plans and Social Security payment amounts, saving for your own retirement is more important than ever before. The easiest, most convenient way for you to take control of your retirement savings is by contributing to a Traditional IRA.

WHAT IS A TRADITIONAL IRA?

This tax-deferred savings plan is available to anyone who has earned income. It is set up for your exclusive benefit. Your designated beneficiary may ultimately receive the proceeds.

HOW DOES A TRADITIONAL IRA WORK?

- You may contribute up to $7,000 per year. If you are age 50 or older, you are eligible to make an additional $1,000 catch-up contribution. Contributions must be made by the tax-filing deadline. This is typically April 15 following the year for which the contribution is designated.
- With a Traditional IRA, you may be able to deduct the contribution from your taxable income, reducing current income taxes. In addition, if your income qualifies, a tax credit — referred to as a Savers Credit — may be available. Taxes on any investment appreciation in your IRA are deferred until the money is withdrawn.
- You may also contribute to a Traditional IRA for a non-working spouse.

IS YOUR TRADITIONAL IRA CONTRIBUTION DEDUCTIBLE?

To determine if your Traditional IRA contribution is deductible for the year, please refer to the following Modified Adjusted Gross Income (AGI) tables.

Traditional IRA Contribution Deduction Phase Out if you are single and are covered by an employer's plan.

	2023 AGI	2024 AGI
Fully deductible if AGI is under	$73,000	$77,000
Partially deductible if AGI is between	$73k-$83k	$77k-$87k
Not deductible if AGI is over	$83,000	$87,000

Contribution Deduction Phase Out if you are Married Filing Jointly and both of you are covered by an employer's plan.

	2023 AGI	2024 AGI
Fully deductible if AGI is under	$116,000	$123,000
Partially deductible if AGI is between	$116k-$136k	$123k-$143k
Not deductible if AGI is over	$136,000	$143,000

Contribution Deduction Phase Out if you are Married Filing Jointly and the contributor is not covered by an employer plan but your spouse is covered by an employer plan.

	2023 AGI	2024 AGI
Fully deductible if AGI is under	$218,000	$230,000
Partially deductible if AGI is between	$218k-$228k	$230k-$240k
Not deductible if AGI is over	$228,000	$240,000

If your filing status is Married Filing Separately, the phase out is $0k - $10k.
Over $10,000 AGI, you are ineligible to deduct your Traditional IRA contribution.

DISTRIBUTIONS

Withdrawals are taxed as ordinary income when received. Withdrawals before age 59½ may be assessed a 10% penalty, in addition to taxes, unless an exception applies. Penalty-free exceptions include:

- First time home purchase ($10,000 lifetime maximum permitted)
- Disability
- Higher education expenses
- Substantially equal periodic payments
- Excess medical expenses
- Payment of health insurance premiums if you are unemployed
- Beneficiary distributions
- Qualified birth or adoption (subject to $5,000 limit per birth or adoption)

Distributions represent deductible (pre-tax) contributions and all earnings are taxed as ordinary income. Nondeductible contributions, if any, are withdrawn tax-free. The portion of a distribution based on non-deductible contributions is tax-free, however, all distributions must include both taxable and nontaxable funds (if any) based on a pro-rata formula provided by the IRS. A helpful worksheet is available from the IRS to help you track what portion of your distribution may be taxable and tax-free. You are also required to file a Tax Form 8606 with your tax return in any year you contribute or withdraw from a non-deductible Traditional IRA.

REQUIRED MINIMUM DISTRIBUTIONS

Assets in IRAs cannot be sheltered from taxes indefinitely. You must begin receiving Required Minimum Distributions (RMDs) from your IRA by April 1 of the calendar year following the calendar year you turn age 73 and continue to receive the RMD before each subsequent December 31. Two distributions will be required in the first year if you wait until the calendar year following 73 to commence RMDs. To avoid taking two RMDs in the same year you would take the first RMD by December 31 of the year you turn 73.

If the full RMD is not taken in a given year, a 25% excise tax is assessed on the amount not taken. For example, if a Traditional IRA holder was required to take $10,000, but only took $6,000, a 25% excise tax could be assessed against the $4,000 shortfall in addition to income taxes due.

QUALIFIED CHARITABLE DISTRIBUTIONS

If you are considering a non-deductible donation to a charity, consider the Qualified Charitable Distribution (QCD). At age 70 1/2 you have the ability to transfer up to $100,000 tax-free, from your IRA directly to a qualified charity. This QCD would be counted toward satisfying your RMD.

To learn more about Traditional IRAs, we invite you to contact the Davenport & Company office Nearest you and speak with one of our Financial Advisors.

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The information contained herein has been compiled from a variety of publicly available documents believed to be reliable and is intended to provide information of a general nature. It is not intended to address any particular circumstance. Davenport does not render tax advice or provide any record keeping or reporting for qualified retirement plans. Accordingly, you should consult with your own tax and/or legal professional.

IRAs and other retirement plans may have fees associated with them in addition to costs associated with investing the assets of the IRA or retirement plan. These fees may include, but are not limited to; annual account fees, administrative fees that may include recordkeeping of the plan, legal fees, accounting fees, termination fees, etc. Please consult with your advisor or plan sponsor to learn more about the fees associated with a particular plan.

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