CPA Practice Advisor

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Apr. 21, 2021

As we head into the home stretch of tax filing season, you may have an ace up your sleeve: If you qualify and beat the tax return deadline, you can take an above-the-line deduction for an IRA contribution. Thus, the contribution may effectively reduce your 2020 tax liability.

The IRS recently postponed the normal due date of April 15 for 2020 returns to May 17. It just announced that this extension also applies to deductions for IRA contributions for the 2020 tax year (IR-2021-67, 3/29/21)

However, you can't postpone contributions for the 2020 tax year by obtaining the

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The MAGI limit for IRA deductions of active plan participants depends on filing status. The phase-out range for single filers for the 2020 tax year is between $65,000 and $75,000 and between $104,000 and $124,000 for joint filers. A partial deduction is allowed if you fall within either range. If you're a joint filer and your spouse is an active plan participant, the phase-out range is kicked up to between $196,000 and $206,000 of MAGI.

For instance, let's say you're a joint filer and you are covered by a 401(k) plan where you work. You want to contribute the maximum $6,000 to your IRA for the 2020 tax year. If your MAGI is $114,000, you can deduct 50% of your contribution, or $3,000.

This tax break is available if you have "earned income" such as compensation from a job. If you only have investment income, you can't deduct contributions to an IRA.

Note that you can contribute to a spousal IRA if just one spouse works. For example, if one spouse has wages of $100,000, you can effectively double the annual contribution to $12,000. Accordingly, the maximum for a spousal IRA where both spouses are age 50 or over is $14,000.

Previously, you could not make contributions to an IRA if you were older than 70½. But the Setting Every Community Up for Retirement Enhancement (SECURE) Act eliminated this restriction. Now you can contribute no matter how old you are.

What happens if you make an IRA contribution after the tax return deadline? It's not the end of the world. The contribution will be treated as having been made for the 2021 tax year and might be deductible on next year's return. At worst, it enables you to accumulate more earnings than you would have received by waiting until next tax return season.

What about Roth IRA contributions? Similar rules apply. However, these contributions are never deductible, although you may benefit from future tax-free payouts. But that’s a story for another day.

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