CPA Practice Advisor

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The tax law provides a unique tax-saver for some people on their 2021 tax returns: They can save for retirement by contributing to an IRA and reduce their tax liability at the same time. Depending on their situation, IRA contributions may be wholly or partially tax-deductible.

In fact, if you they early, they may be able to fund their IRA for the 2021 tax year with a refund they can from their return!

Details: The maximum amount a taxpayer can contribute to an IRA for the 2021 tax year is $6,000 (or $7,000 if age 50 or older). (The IRS recently announced that these figures remain the same for the 2022 tax year.) The total may be split up among

threshold.

The phase-out range for single filers who are active plan participants is between \$66,000 and \$76,000 of MAGI and between \$105,000 and \$125,00 for joint filers. If one spouse of a couple is an active participant, the phase-out range is between \$198,000 and \$208,000 of MAGI. These dollar figures are also indexed annually for inflation. (The amounts have been increased for 2022.)

For example, a 45-year-old single filer who has a MAGI of \$71,000 for 2021 and participates in an employer's 401(k) plan can deduct 50% of a \$6,000 contribution, or \$3.000. Note that IRA contributions are deducted "above the line" so they reduce adjusted gross income (AGI) for other tax purposes.

Contributions made to an IRA can compound without any current tax. This is often a good supplement to an employer-sponsored retirement plan.

Best of all, if a taxpayer qualifies for deductions for IRA contributions, he or she can take advantage of a unique tax strategy:

Idea in action: File your 2021 tax return early and claim a deduction for an IRA contribution you have yet to make. Then use the resulting refund to make the contribution for the 2021 tax year. As long as the contribution is deposited by the April 18th tax return due date, you're in the clear.

Can this really be done? Yes. The IRS gave its approval in a ruling issued decades ago. And it recently created Form 8888, *Direct Deposit of Refund*, which makes it easier for taxpayers to apportion part of a refund to a contribution. Follow the instructions for Form 8888.

What about Roth IRAs? The same contribution limits apply, but Roth contributions are never tax-deductible. Also, the ability to contribute to a Roth is phased out at certain MAGI levels, whether or not you're an active participant in an employer plan.

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