

# Retirement Planning

## Multiple Income Sources Provide Retirement Options

Saving for retirement should be one of your main financial goals. Try to take advantage of all options open to you. If you have a 401(k) at work, you may contribute to a Roth IRA, as long as you fall within the income requirement of adjusted gross income of under \$110,000 or \$160,000 if you are married filing a joint return. You may contribute to the Roth up to the lesser of \$2,000 or your earned income.

If you contribute to a 401(k) through your regular employer, but do consulting work on the side you may also be able to open a SEP account. When opting to contribute to an SEP/401(k) combination, the two plans must be aggregated for contribution limits, which vary depending upon the type of plan you have. Remember, though, that putting just a few hundred more dollars away each year lets you reach your retirement goals sooner.

## The Ins and Outs of IRA Transfers

If you transferred your traditional IRA from one trustee to another, it should magically disappear and reappear, all without passing through your hands. If the process works as it should, you need to do absolutely nothing with regard to your Form 1040. However, if you received a form that shows that the money was withdrawn (this would be an exception to the rule), then show the amount you 'received and moved' on line 15a of your 1040 and on 15b report zero as the amount taxable.

## Tracking Your IRA Paper Trail

If your broker made an error and rolled your IRA into a Roth IRA and then reversed it, the broker has created a paper trail for you to manage because you now have two 1099-Rs. The easiest way to handle this situation is to put the total from the 1099-Rs in box 15A on your 1040 Form. Then, in 15B, unless some money came out, enter zero and include a statement in the return explaining what happened.

## Traditional IRA Deductions Depend on Income

Contributing to any kind of IRA is a good idea, even if you can't deduct your contributions. That's because the earnings in the account grow tax-free until you withdraw them. With a traditional IRA, you may be able to deduct your contributions, too:

- If you are single and participate in an employer-maintained retirement plan, you can deduct the full amount of your traditional IRA contributions if your adjusted gross income (AGI) is less than \$33,000. You can deduct a portion of your contributions if your AGI is between \$33,000 and \$43,000. If your AGI is \$43,000 or more, you can't deduct any contributions. If you do not participate in an employer-maintained plan, you can deduct all of your contributions, no matter how high your AGI is.
- If you are married, filing a joint return, the rules are a bit more complicated. If neither you nor your spouse participates in an employer-maintained retirement plan, your traditional IRA contributions are fully deductible. If you participate in

such a plan, your contributions are fully deductible if your AGI is less than \$53,000, partly deductible if your AGI is between \$53,000 and \$63,000, and nondeductible if your AGI is \$63,000 or more. If your spouse participates in an employer-maintained plan but you don't, your traditional IRA contributions are fully deductible if your AGI is less than \$150,000, partly deductible if your AGI is between \$150,000 and \$160,000, and nondeductible if your AGI is \$160,000 or more.

Another IRA option is the Roth IRA. Contributions to this type of IRA are never deductible, but qualified withdrawals from a Roth IRA are nontaxable.

The rules governing traditional and Roth IRAs are complex, but your H&R Block tax professional can help you choose the right IRA option for your situation.

**Note:** The above amounts apply only to tax year 2001 returns.

### **Taxed about Retiring Early?**

The tax implications of early retirement depend entirely on what you mean by early retirement. You should consult with a tax professional before you retire to get the information you need to make an educated decision about timing and taxes.

### **Reaping the Benefits of a Roth IRA**

Considering a Roth IRA? Consider these benefits: Earnings are non-taxable when withdrawn, provided you meet the holding requirements. Another advantage is, unlike traditional IRAs, the IRS does not require you to take a distribution from a Roth IRA when you reach age 70 1/2. Roth IRAs are not without some restrictions, however. As with traditional IRAs, distributions of earnings are taxable and subject to a 10-percent penalty if taken out prematurely. With a Roth, you must leave your money in for five years. Another drawback is that contributions cannot be taken as an adjustment on Form 1040. So, for taxpayers who qualify to deduct contributions to traditional IRAs, the choice can be difficult.

### **Leveraging your Life Expectancy During Retirement**

If your current income isn't quite funding your early retirement, IRA regulations allow you to take penalty-free distributions based on your life expectancy. If you do this, you must continue until at least age 60, and you may not change the payment schedule once it has been determined. Several ways exist to figure the amount of the payment, so contact a qualified advisor. Once you reach age 60, you can stop taking payments if you choose or you may increase the amount you withdraw.

### **Roth Conversions and the \$100,000 Plateau**

Gains made from converting your regular IRA to a Roth do not count as income toward the \$100,000 adjusted gross income (AGI) conversion limit that determines if you can make the conversion.

### **Roth IRAs Rewrite Withdrawal Rules**

Contributions to a Roth IRA should be retained for five years from the date on which you opened the account. From that point, you may leave your contributions there as long as you want to. (Remember, the IRS does not require you to take distributions on your Roth IRA at age 70 1/2.) You can even pass your Roth on to your descendants or heirs.

### **Turning Profit-Sharing Income into a Roth IRA**

If you want to transfer profit-sharing retirement plan proceeds from a previous employer to a Roth IRA, you must first roll the proceeds into a traditional IRA. You can then convert the traditional IRA to a Roth. You must pay tax on the amount you convert to a Roth IRA in the year you make the conversion.

### **Pension Participation Prevents IRA Deduction**

If you worked for an employer for any period of time during a year in which you also participated in a pension plan, you are considered to have been in the pension plan for the entire year. As a result, you are considered an active participant even if you are vested. Therefore, your traditional IRA deductions may be limited.

### **IRA Contributions not Always a Tax Shelter**

Contributing to an IRA could reduce your taxes, depending on your eligibility for a deductible IRA. IRA contributions can result in a reduction of your adjusted gross income but don't reduce your tax liability dollar-for-dollar.

### **Max out Your SEP**

A self-employed person can contribute 13.0435 percent, up to \$25,500, of his or her net income. Employees can contribute up to 15 percent of their wages.