

# Choosing the right IRA

Traditional and Roth IRAs are both designed to help you save for retirement, but with different approaches. The following can help you understand their similarities, differences and benefits.

## Can I contribute to an IRA?

**Traditional IRA:** If you have taxable compensation you're eligible to contribute. Even if you don't have taxable compensation, you can still contribute if your spouse has earned income and you file your tax return as Married Filing Jointly.

**Roth IRA:** If you have taxable compensation, or your spouse has taxable compensation and you file your tax return as Married Filing Jointly, you can contribute at any age as long as your modified adjusted gross income (MAGI) falls below or within the limits listed below.

## How much can I contribute?

You can contribute 100% of your taxable compensation – up to the annual contribution limit – to either a traditional IRA, a Roth IRA or both types of IRA.

Traditional IRA and Roth IRA		
Contribution Limits		Catch-up Contribution 2019 and 2020
2019	2020	
\$6,000	\$6,000	Age 50 and older: \$1,000

## Are My Contributions Tax-deductible?

**Traditional IRA:** Your contributions may be tax-deductible depending on whether you participate in an employer-sponsored retirement plan. If you are single and not covered by a plan, or if you are married and neither you nor your spouse is covered by a plan, you can deduct your full contribution.

If you or your spouse receive coverage through work, deductibility depends on your MAGI. This chart determines the deduction of the person covered by an employer plan. Total contributions between a Roth and a traditional IRA for the same individual cannot exceed the applicable limits.

MAGI Contribution Limits			
Filing Status	2019	2020	Contribution
Individual	Less than \$122,000	Less than \$124,000	Full contribution
	\$122,001-\$136,999	\$124,001-\$138,999	Partial contribution
	\$137,000 or more	\$139,000 or more	No contribution
Married Filing Jointly	Less than \$193,000	Less than \$196,000	Full contribution
	\$193,001-\$202,999	\$196,001-\$205,999	Partial contribution
	\$203,000 or more	\$206,000 or more	No contribution
Married Filing Separately	\$1-\$9,999	\$1-\$9,999	Partial contribution
	\$10,000 or more	\$10,000 or more	No contribution

MAGI represents your adjusted gross income (AGI) after certain deductions or income adjustments are taken. MAGI is used to help determine your eligibility to contribute to a Roth IRA and whether you can deduct contributions to your traditional IRA.

MAGI Limits for Deductibility			
Filing Status	2019	2020	Deduction
Individual	\$64,000 or less	\$65,000 or less	Full deduction
	\$64,001-\$73,999	\$65,001-\$74,999	Partial deduction
	\$74,000 or more	\$75,000 or more	No deduction
Married Filing Jointly	\$103,000 or less	\$104,000 or less	Full deduction
	\$103,001-\$122,999	\$104,001-\$123,999	Partial deduction
	\$123,000 or more	\$124,000 or more	No deduction
Married Filing Separately	Less than \$10,000	Less than \$10,000	Partial deduction
	\$10,000 or more	\$10,000 or more	No deduction

If only one spouse is covered by a retirement plan, the other has a much higher MAGI deduction range. For 2019, the range is \$193,001 to \$202,999 and for 2020, the range is \$196,001 to \$205,999.

**Roth IRA:** You cannot deduct contributions to a Roth IRA.

### Can I take a tax credit?

You may be eligible for a tax credit when you contribute to a retirement plan or an IRA. The maximum annual contribution eligible for this tax credit is \$2,000, and the credit rate you receive depends on your adjusted gross income:

AGI Tax Credit Rates			
Filing Status	2019	2020	Credit
Joint Filers	\$0-\$38,500	\$0-\$39,000	50%
	\$38,501-\$41,500	\$39,001-\$42,500	20%
	\$41,501-\$64,000	\$42,501-\$65,000	10%
	More than \$64,000	More than \$65,000	0%
Heads of Household	\$0-\$28,875	\$0-\$29,250	50%
	\$28,876-\$31,125	\$29,251-\$31,875	20%
	\$31,126-\$48,000	\$31,876-\$48,750	10%
	More than \$48,000	More than \$48,750	0%
All Other Filers	\$0-\$19,250	\$0-\$19,500	50%
	\$19,251-\$20,750	\$19,501-\$21,250	20%
	\$20,751-\$32,000	\$21,251-\$32,500	10%
	More than \$32,000	More than \$32,500	0%

### Can I access my IRA?

**Traditional IRA:** You can access your money at any time, but a withdrawal may be subject to ordinary income tax and a 10% early withdrawal penalty if you take a distribution before reaching age 59½. If you made any nondeductible contributions to your IRA, each withdrawal will include a nontaxable return of a pro rata portion of those contributions, until they are all distributed.

Exceptions to early withdrawal penalties are:

- Death or disability
- Qualified higher education expenses
- First-time home purchase (up to \$10,000)
- Payment of health insurance premiums after 12 consecutive weeks of unemployment
- Payment of medical expenses that exceed 7.5% of AGI
- Systematic distributions [72(t)]
- IRS levy
- Qualified reservist distribution

If you take a distribution after age 59½, you pay ordinary income tax on the withdrawal but do not pay a penalty. Required minimum distributions (RMDs) begin at age 70½.

**Roth IRA:** You can access contribution dollars at any time without taxes or penalties.\* Withdrawals of earnings from a Roth IRA are tax-free if made after the later of reaching age 59½ or five years after your first contribution (or conversion of those amounts). Withdrawals of earnings before then may be subject to income tax regardless of age, and withdrawals of earnings before reaching age 59½ also may be subject to a 10% early withdrawal penalty. Exceptions to early withdrawal penalties are the same as with a traditional IRA.

\*If you fund your Roth IRA through a rollover or conversion, the tax consequences may be different.

All tables show information for the 2019 and 2020 tax year.

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