



Addendum: Tax Issues for Seniors

Revision 1:

The example on Page 32 was corrected.

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The entire example has been modified and corrected.

Example Tom and Betty file MFJ, they are both age 55, and they are both W-2 employees. Tom participates in his employer's retirement plan, but Betty's employer does not offer a retirement plan. Tom's salary is \$71,000 and Betty's is \$32,555. They each decide to contribute \$5,500 to their individual traditional IRA and their combined modified AGI, which includes \$6,000 interest and dividend income, is \$109,555. Because their modified AGI is between \$96,000 and \$116,000 and Tom participates in an employer plan, he is subject to the deduction limitation.

Tom completes the worksheet to calculate his deductible and nondeductible amounts. As MFJ, over age 50, and covered by a plan, the computation on Line 4 uses 32.5%. He can choose to treat \$2,100 as either deductible or nondeductible, and he can either leave the \$3,400 (\$5,500 - \$2,100) of nondeductible contribution in the IRA or withdraw the amount by April 15. If he leaves the \$3,400 in the IRA, his return would need to include Form 8606 to report basis.

Betty can deduct her full contribution of \$5,500 because she is not a participant in an employer plan and their modified AGI is not between \$181,000 and \$191,000.

Together, their total IRA deduction on a MFJ return is \$7,600.



1. Enter applicable amount from table above	1.	116,000
2. Enter your modified AGI (that of both spouses, if married filing jointly)	2.	109,555
Note. If line 2 is equal to or more than the amount on line 1, stop here. Your IRA contributions are not deductible. See <i>Nondeductible Contributions</i> , earlier.		
3. Subtract line 2 from line 1. If line 3 is \$10,000 or more (\$20,000 or more if married filing jointly or qualifying widow(er) and you are covered by an employer plan), stop here. You can take a full IRA deduction for contributions of up to \$5,500 (\$6,500 if you are age 50 or older) or 100% of your (and if married filing jointly, your spouse's) compensation, whichever is less	3.	6,445
4. Multiply line 3 by the percentage below that applies to you. If the result is not a multiple of \$10, round it to the next highest multiple of \$10. (For example, \$611.40 is rounded to \$620.) However, if the result is less than \$200, enter \$200.		
<ul style="list-style-type: none"> • Married filing jointly or qualifying widow(er) and you are covered by an employer plan, multiply line 3 by 27.5% (.275) (by 32.5% (.325) if you are age 50 or older). • All others, multiply line 3 by 55% (.55) (by 65% (.65) if you are age 50 or older). 	4.	2,100
5. Enter your compensation minus any deductions on Form 1040 or Form 1040NR, line 27 (deductible part of self-employment tax) and line 28 (self-employed SEP, SIMPLE, and qualified plans). If you are filing a joint return and your compensation is less than your spouse's, include your spouse's compensation reduced by his or her traditional IRA and Roth IRA contributions for this year. If you file Form 1040 or Form 1040NR, do not reduce your compensation by any losses from self-employment	5.	71,000
6. Enter contributions made, or to be made, to your IRA for 2014, but do not enter more than \$5,500 (\$6,500 if you are age 50 or older). If contributions are more than \$5,500 (\$6,500 if you are age 50 or older), see <i>Excess Contributions</i> , later.	6.	5,500
7. IRA deduction. Compare lines 4, 5, and 6. Enter the smallest amount (or a smaller amount if you choose) here and on the Form 1040, 1040A, or 1040NR line for your IRA, whichever applies. If line 6 is more than line 7 and you want to make a nondeductible contribution, go to line 8	7.	2,100
8. Nondeductible contribution. Subtract line 7 from line 5 or 6, whichever is smaller. Enter the result here and on line 1 of your Form 8606	8.	3,400

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The third and fourth sentence of the second paragraph were changed to state \$3,900 is deductible and \$2,600 is nondeductible.

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