

MEMO# 17123

February 20, 2004

IRS STATISTICS OF INCOME DIVISION IRA INFORMATION

[17123] February 20, 2004 TO: PENSION COMMITTEE No. 8-04 PENSION OPERATIONS ADVISORY COMMITTEE No. 16-04 RESEARCH COMMITTEE No. 6-04 RE: IRS STATISTICS OF INCOME DIVISION IRA INFORMATION Traditional IRAs¹ Deductions for contributions to Individual Retirement Arrangements (IRAs) appeared on Form 1040 for the first time for tax-year 1975, and the 1975 version of the annual report Statistics of Income—Individual Income Tax Returns duly recorded the number of returns with an entry on that line—1.2 million—and the amount deducted—about \$1.4 billion (Figure 1). Twenty-five years and many tax law changes later, the 2000 Individual Income Tax Returns report still tabulated the entries on this line, amounting to 3.5 million returns and \$7.5 billion in deductible traditional IRA contributions (Figures 1 and 2).² In addition, Figure 2 presents the distribution of tax returns with deductible IRA contributions by adjusted gross income (AGI) in 2000, compared with the overall distribution of tax returns.³ However important these statistics have been to the analysis of IRAs over the years, they have not told the full story. For example, during tax-year 2000, in addition to the \$7.5 billion in tax-deductible contributions to traditional IRA plans, \$2.5 billion in non-deductible contributions were also made to such plans (Figure 3).⁴ Furthermore, other types of IRAs received \$26.3 billion in contributions. However, much more importantly, \$225.6 billion of assets were rolled over into traditional IRAs primarily from other qualified pension plans and tax-sheltered annuities.⁵ These three statistics were taken from Forms 5498 filed with the 1 Much of the text and figures presented in this section of the memo were excerpted from “Accumulation and Distributions of Retirement Assets, 1996-2000: Results From a Matched File of Tax Returns and Information Returns” by Peter Sailer (IRS), Kurt S. Gurka (IRS), and Sarah Holden (ICI), prepared for the American Statistical Association (ASA) annual meeting, August 2003, conference proceedings, forthcoming. 2 The 2001 Individual Income Tax Returns report indicates that 3.4 million returns had \$7.4 billion in deductible contributions. 3 For income limits on deductible contributions in 2000, see the IRS Publication 590 for that year at: <http://www.irs.gov/pub/irs-00/p590.pdf>. 4 Please note that Figure 3 presents number of taxpayers, while Figure 2 presents number of tax returns. 5 IRS Statistics of Income (SOI) division tabulations indicate that rollovers were \$61 billion in 1989; \$78 billion in 1993; \$114 billion in 1996; \$121 billion in 1997; \$160 billion in 1998; and \$200 billion in 1999. 2 Internal Revenue Service by IRA trustees.⁶ Form 5498 also shows the total fair market value (FMV) of assets held in IRAs. At year-end 2000, the total value of IRA assets stood at \$2.6 trillion, with traditional IRAs holding \$2.4 trillion (or 92 percent of the total). Roth IRAs Figure 4 presents available information on Roth IRAs. Roth conversions were sizable at \$39.3 billion in 1998, when the income tax on the conversion could be spread over four tax years, but registered only \$3.2 billion in 2000 (Figures 3 and 4). Contributions to Roth IRAs were \$8.6 billion in 1998 and rose to \$11.5 billion in 2000. At year-end 2000,

Roth IRAs held \$77.6 billion in assets, with \$56 billion (or 72 percent) invested in mutual funds. If you have any questions or comments concerning these data, please call me at (202) 326-5915. Sarah Holden Senior Economist Attachment (in .pdf format) 6 All SOI data are based on a stratified weighted sample of individual income tax returns with matching information returns. The tabulations are based on information that has not been audited. However, the SOI division has improved its data cleaning process sufficiently to make publication of these data from the information forms possible. For SOI data estimation methodology, see Peter J. Sailer, Michael E. Weber, and Kurt S. Gurka, "Are Taxpayers Increasing the Buildup of Retirement Assets? Preliminary Results from a Matched File of Tax Year 1999 Tax Returns and Information Returns," National Tax Association, Proceedings, 95th Annual Conference on Taxation, 2002; pp. 364-369.

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