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Focus on Funds: Tax Time Can Be a Great Time to Open an IRA

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Opening or contributing to an individual retirement account (IRA) before the April 17 tax deadline can offer special advantages for retirement and tax savings. In the March 9, 2018, edition of *Focus on Funds*, ICI Education Foundation Vice President Tina Kilroy provides details.

Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: US tax law may have changed recently. But one thing that's remained the same are the tax advantages of saving through an individual retirement account, and this is particularly relevant as Tax Day approaches. Tina Kilroy of the ICI Education Foundation shares some tips and advice on how to make the most of an IRA.

Tina Kilroy, vice president, ICI Education Foundation: More than a quarter of US households owned traditional IRAs in 2017, and I think there's three main reasons why they're so popular. The first is flexibility, the second is that you can automate them, and the third is their tax features.

So the first—their flexibility—workers can roll over their 401(k) or other retirement assets into an IRA, and basically making them portable. They can carry their assets with them throughout their career; it really simplifies managing this retirement assets.

The second—you can automate your contributions to an IRA, so it's automatically taken out of your bank account, and this helps you make regular and relatively easy contributions to your retirement.

The third are the tax features. Even if you can't deduct all of your IRA contribution, you may be able to deduct some of it. And, regardless of how much you can contribute, your IRA savings grow tax-free until retirement.

Ortbals-Tibbs: So the other thing that's going on here is that this is kind of a window that's open in early 2018 for people who might be either saving in an IRA or thinking about saving in an IRA.

Kilroy: That's right. The IRS lets savers make IRA contributions for the previous tax year up until Tax Day. So for 2017, you can still contribute to your IRA in 2017 up until April 17, when 2017 taxes are due.

It's important to note, though, that the IRA deadline is final. So even if you get a tax extension for your returns in 2017, you can't contribute to an IRA past April 17.

Ortbals-Tibbs: But what that could mean is that if you were looking to still find a way to lower your tax burden from last year, this is an opportunity.

Kilroy: You can deduct your IRA contribution from your income, still, for 2017. So this gives you a chance to lower your income and effectively lower your taxes for last year.

Ortbals-Tibbs: So now that we've probably interested people in this notion—for those either who might've either forgotten what the contribution details are or would be looking at doing this, let's walk them through what they should know.

Kilroy: One important thing to remember is that deductibility does phase out with income, so you'll have to look at your own situation or talk to your financial professional to see how this affects you. But if you don't have a 401(k) or other workplace retirement account, your IRA contribution is fully deductible regardless of income, so you go ahead and try to max out your contribution. Contribution limits are at $5,500 if you're under age 50, and if you're 50 or above, they max out at $6,500 a year.

Ortbals-Tibbs: So some details to sort out, but a real opportunity here for people to build a nest egg.

Kilroy: This is a great opportunity; it's probably the best time. If you've been thinking about starting one, give yourself a little bit of time before Tax Day. Go ahead and set one up, and start contributing. Doing so can lower your tax liability now, but it can also set you up to have a better nest egg in retirement.

Additional Resources

- Learn more about the ICI Education Foundation
- Release: IRA-Owning Households Access IRAs Through a Full Range of Financial Services Firms
- IRA Resource Center