You may be able to make a deductible IRA contribution for *last* year this year

If you're getting ready to file your 2024 tax return and your tax bill is higher than you'd like, there may still be a chance to lower it. If you're eligible, you can make a deductible contribution to a traditional IRA until this year's April 15 filing deadline and benefit from the tax savings on your 2024 return.

Who's eligible?

You can make a deductible contribution to a traditional IRA if:

- You (and your spouse) aren't an active participant in an employer-sponsored retirement plan, or
- You (or your spouse) are an active participant in an employer plan, but your modified adjusted gross income (MAGI) doesn't exceed certain levels that vary from year-to-year by filing status.

For 2024, if you're a married joint tax return filer and you're covered by an employer plan, your deductible traditional IRA contribution phases out over $123,000 to $143,000 of MAGI. If you're single or a head of household, the phaseout range is $77,000 to $87,000 for 2024. The phaseout range for married individuals filing separately is $0 to $10,000. For 2024, if you're not actively participating in an employer retirement plan but your spouse is, your deductible IRA contribution phases out with MAGI of between $230,000 and $240,000.

Deductible IRA contributions reduce your current tax bill, and earnings in the IRA are tax deferred. However, every dollar you withdraw is taxed (and subject to a 10% penalty before age 59½, unless one of several exceptions apply).

Traditional IRAs are different from Roth IRAs. You also have until April 15 to make a Roth IRA contribution. But while contributions to a traditional IRA are deductible, contributions to a Roth IRA aren't. However, withdrawals from a Roth IRA are tax-free as long as the account has been open at least five years and you're age 59½ or older. (There are also income limits to make contributions to a Roth IRA.)

If you're married, you can make a deductible IRA contribution even if you don't work. In general, you can't make a deductible traditional IRA contribution unless you have wages or other earned income. However, an exception applies if one spouse has earned income and the other is a homemaker or not employed. In this case, you may be able to take advantage of a spousal IRA.

What are the contribution limits?

For 2024, if you're eligible, you can make a deductible traditional IRA contribution of up to $7,000 ($8,000 if you're age 50 or older). For 2025, these amounts remain the same.

In addition, small business owners can set up and contribute to Simplified Employee Pension (SEP) plans up until the due date for their returns, including extensions. For 2024, the maximum contribution you can make to a SEP is $69,000 (increasing to $70,000 for 2025).

How can you maximize your nest egg?

If you want more information about IRAs or SEPs, contact us. Or ask about tax-favored retirement saving when we're preparing your return. We can help you save the maximum tax-advantaged amount for retirement.