update

Rollovers:

Regular IRAs may be rolled over or converted to Roth IRAs by taxpayers whose AGI isn't more than $100,000 in the rollover year. Married separate taxpayers can't roll or convert a regular IRA to a Roth IRA.

When you roll over or convert to a Roth IRA, you must pay tax on the income from the regular IRA that would have been taxed if you had not converted it to a Roth IRA.

Comparing Results of Traditional and Roth IRAs:

Determining whether a Traditional IRA or a Roth IRA best suits for you depends upon your unique circumstances, both now and in the future. You are encouraged to seek assistance from your tax or financial advisor to assist you with this decision.

Deemed IRAs

For years after 2001, where a "qualified employer plan" elects to allow employees to make voluntary employee contributions into a separate account or annuity in a "qualified employer plan," it will be considered a "Deemed IRA." Deemed IRAs are treated in the same manner as an individual retirement account or annuity. This gives the employees participating in their employer's qualified plan the option to designate their voluntary contribution into a separate Traditional or Roth IRA.

However, all of the normal IRA income and AGI limitations will apply to "Deemed IRA" contributions. This can create problems if an individual also contributes to a Regular IRA and the combination of the Regular IRA and the Deemed IRA exceed the annual limitation. Another trap exists when a taxpayer designates the Deemed IRA as a Roth IRA and later discovers their income disqualifies them from having a Roth IRA. If you are not sure of the implications of Deemed IRA designations for your specific circumstances, you are urged to consult with your tax or financial advisor.

Annual Contribution Limits

After 2001, IRA contributions are no longer limited to $2,000 as they have been for so many years in the past. In addition, taxpayers age 50 and older are allowed to make "catch-up" contributions allowing them larger contributions in their later years to fund their approaching retirement needs. The table below illustrates the annual contribution limit applicable to each year by age.

Year	Contribution Limits	
	Under Age 50	Age 50 and Over
Through 2001	2,000	2,000
2002 through 2004	3,000	3,500
2005	4,000	4,500
2006 through 2007	4,000	5,000
2008	5,000	6,000
2009 and after	Inflation Adjusted	

Saver's Credit:

The Retirement Savings Contribution Credit, frequently referred to as the Saver's Credit, was established to encourage low to moderate income taxpayers to put funds away for their retirement.

Up to $2,000 per taxpayer of contributions to an IRA (Traditional or Roth) or other retirement plans, such as a 401(k), may be eligible for a nonrefundable tax credit that ranges from 10% to 50% of the contribution, depending on the taxpayer's income. The maximum credit per person is $1,000. The contribution amount on which the credit is based is reduced if the taxpayer (or spouse if filing jointly) received a taxable retirement plan distribution for the year for which the credit is claimed (including up to the return due date in the following year) or in the prior two years. If modified AGI exceeds $25,000 (single), $50,000 (married joint) or $37,500 (head of household), no credit is allowed. An individual who is under age 18, a full-time student, or a dependent of someone else is ineligible. The credit, which applies for tax years 2002 through 2006, is in addition to any deduction allowed for traditional IRA contributions.

Education IRAs:

Now referred to as Coverdell Education Savings Accounts (CESA), the CESA is really a nondeductible education savings account. The investment earnings from these accounts accrue and are withdrawn tax-free, provided the proceeds are used to pay qualified education expenses of the beneficiary. These accounts first became available in 1998, and nondeductible contributions of up to $500 were permitted per year for the benefit of the designated beneficiary. Beginning in 2002, the allowable nondeductible contribution has been increased to $2,000 per year per beneficiary. Contributions are only allowed for designated beneficiaries under the age of 18.

The annual contribution limit is gradually reduced if the contributing taxpayer's "modified AGI" is within the phase-out range and eliminated for taxpayers above the range. Beginning in 2002, the phase-out limits for married taxpayers has been increased to $190,000 - $220,000 while remaining at $95,000 - $110,000 for single taxpayers. If the AGI limits the contribution, the funds can be gifted to someone else whose contribution would not be AGI limited, even the beneficiary.

The purpose of this pamphlet is to provide current information on tax, financial, and business developments. It suggests general tax planning ideas that may be appropriate in certain situations. The information and opinions are generalizations and may not apply to all taxpayers; it is important that you seek appropriate advice before implementing any of the ideas suggested.

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Planning Your IRA Strategy

A Guide to Selecting the Right IRA

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Your IRA Contribution Options

For years, individuals have been able to set up personal retirement plans called individual retirement accounts (IRAs). Nearly everyone who receives "compensation," either as an employee or as a self-employed individual, can contribute to an IRA. You can choose from a variety of different types; some give you a tax deduction, while others don't. This brochure highlights in general terms the IRA options available under current law and points out some of the advantages of each. For more details about which IRAs fit best with your specific situation, be sure to check with your tax advisor.

Setting up an IRA:

To select the best type of IRA to meet your current income level and your long-term investment goals generally requires the advice of a professional. You are strongly advised to seek the advice of your tax advisor or financial planner before selecting a specific type of IRA and the investment vehicle for your IRA. Although others, not fully cognizant of your current tax planning objectives or your long-range financial and estate planning needs, will be eager to assist you, prudent planning may be more appropriate.

Types of Investments:

Examples of typical IRA investment vehicles include insurance annuities, stocks, bonds, mutual funds, and cash (in savings institutions).

Definition of Compensation:

You can open an IRA only if you receive "compensation." Compensation includes wages, salaries, tips, professional fees, commissions, self-employment income, and alimony. Compensation does not include rental income, interest or dividend income, pensions or annuities, deferred compensation, or amounts you exclude from income.

IRA Penalties

Remember that various penalties can apply to most IRAs. When you contribute more than the IRA limits allow, withdraw from the account too early, or don't take sufficient distributions when required, penalties can apply. Under certain circumstances, penalties can be avoided for premature IRA withdrawals. Exceptions apply, for example, when withdrawal is due to disability, for paying certain first-time home purchase expenses, and for paying educational costs. Be sure to check with your tax advisor concerning the exact rules on penalties to ensure against receiving unwelcome "surprises" when you file your tax return.

Traditional IRAs

With a Traditional IRA, if you're under age 70½, you can contribute up to the annual limit to your IRA account. However, if your taxable compensation is less than the annual limit in a given year, your contribution will be limited to the amount of your compensation.

Traditional IRA contributions are generally deductible on your tax return. However, you can designate that they be nondeductible. If you make this choice, you build up a basis in your IRA so that when you begin to withdraw from the account, part of each withdrawal is nontaxable. However, the choice not to deduct an IRA contribution should be made with caution in light of your particular tax situation. This is especially true since recent law changes involving IRAs allow only nondeductible contributions to certain types of accounts (see more under Roth and Education IRAs below).

If you're married, file jointly, and your spouse has little or no compensation, a Traditional IRA may be set up as a spousal IRA, allowing your spouse to make IRA contributions based upon your compensation. However, neither spouse can deposit more than the annual limit to his/her individual account.

Participation in Other Plans:

One complication of Traditional IRAs affects taxpayers who actively participate in other pension plans - e.g., an employer plan, a Keogh or SEP, etc. When you are covered by another pension plan, your IRA deduction "phases out" (i.e., gradually reduces to zero) depending on your filing status and your income level. Phase-out begins at income levels according to the following schedule:

Tax Year	Threshold Level Single*	Joint
2000	32,000	52,000
2001	33,000	53,000
2002	34,000	54,000
2003	40,000	60,000
2004	45,000	65,000
2005	50,000	70,000
2006	50,000	75,000
2007 and after	50,000	80,000

**The Single threshold applies to taxpayers other than those filing joint, except Married Separate taxpayers who have a threshold of $ -0- .*

Through 2006, if your income exceeds the above thresholds by less than $10,000, your IRA deduction will be limited; if it exceeds the threshold by $10,000 or more, you get no IRA deduction. After 2006, $20,000 will be substituted for the $10,000 amount for taxpayers filing married joint.

Break for Spouse of an Active Participant:

The limits on deductible IRA contributions no longer apply to the spouse of an active participant. Instead, the maximum deductible IRA contributions for an individual who is not an active participant but whose spouse is an active participant, is phased out for the nonactive individual if the couple's combined AGI is between $150,000 and $160,000.

Example: A wife is an active participant in a retirement plan, but her husband is not. The couple's combined AGI is $200,000. Neither spouse can take an IRA deduction, because their AGI is over $160,000.

But assume the couple's combined AGI was only $125,000. Since the husband isn't an active participant in another plan, he can make a deductible IRA contribution. However, his wife can't make one, because the combined AGI is over the threshold for joint filers (see chart for annual threshold amount).

Due Date for Making Traditional IRA Contributions:

Traditional IRA contributions (whether deductible or nondeductible) must be made by the due date (without extensions) of the return for the year to which they apply.

Roth IRAs

You may be able to open a Roth IRA, a type of IRA that allows only nondeductible contributions. Distributions from these IRAs, including earnings on them, are tax-free if a holding period and other requirements are met. Like the Traditional IRA, annual contributions are limited to the smaller of your compensation or the annual limit. However, if you have other IRAs - for example, a Traditional IRA - your combined annual contributions to all of them (including the Roth IRAs) can't be more than the annual contribution limit. Roth IRAs allow contributions even after you turn age 70½, and spousal Roth IRAs are also allowed. The due date for making your contributions to a Roth IRA is the same as for Traditional IRAs.

Contributions to Roth IRAs phase out if income is between $150,000 and $160,000 for joint filers and between $95,000 and $110,000 for individuals (special phase-out rules apply to married separate filers). The phase-out applies regardless of whether the taxpayer (or spouse, if married) is an active participant in another plan.