Spousal IRA

If you file a joint return and your taxable income is less than that of your spouse, the "spousal" IRA rules may allow you to contribute up to $3,000 (or $3,500 if you are 50 or older) to an individual retirement account (IRA) this year. A "spousal IRA" is a term more commonly used to describe an IRA set up for a nonworking, stay-at-home spouse.

Traditional IRA

Individuals under the age of 70 1/2 can make contributions to traditional IRAs. Contributions are deductible and amounts earned in a traditional IRA are not taxed until distributions are made. As an alternative, the contribution may be made to a Roth IRA, in which case it is not deductible (but neither will any qualified withdrawals be taxed later on).

Increased contribution limit

In 2003 and 2004, the maximum contribution is $3,000. For 2005 through 2007, the amount will increase to $4,000. In 2008, it will be $5,000. Starting in 2009, the maximum contribution will be subject to an annual inflation adjustment.

Catch-up contributions

An individual who will be at least 50 years old by the end of the tax year is able to make an additional contribution to an IRA. For 2003 through 2005, the maximum amount of the catch-up contribution is $500. After 2005, the maximum amount will be $1,000.

Impact of employer-sponsored plans on contributions

The deduction for an IRA contribution is limited if a spouse is an active participant in an employer-maintained retirement plan. The ability to claim a deduction will depend upon the couple's combined adjusted gross income (AGI). In 2003, the deduction for an IRA contribution will be reduced when the combined AGI is between $60,000 and $70,000. In 2004, the range will be $65,000 to $75,000; in 2005 the range will be from $70,000 to $80,000. In 2006, the range will be from $75,000 to $85,000, and for 2007 and thereafter, the phaseout range will be from $80,000 to $90,000.

An individual is not considered an active participant in an employer-sponsored plan merely because his or her spouse is treated as an active participant. The maximum deductible contribution for an individual who is not an active participant, but whose spouse is an active participant, is phased out at a combined AGI between $150,000 and $160,000.

Impact of filing status on contributions

Filing status also affects the amount of the IRA contribution deduction. If either spouse is covered by a retirement plan through his or her employer, the deduction may be reduced or eliminated depending upon the couple's filing status. For example, if separate returns are filed, the lower compensated spouse may only be able to contribute up to the amount he or she earned in taxable compensation that year.

Example

Wendy is not employed, but her husband Harold participates in a 401(k) plan sponsored by his employer. The couple files a joint income tax return and reports an AGI of $130,000. Wendy can make a deductible contribution to a traditional IRA because she is not an active participant in an employer-sponsored retirement plan and their combined AGI is below $150,000.

Wendy's contribution to an IRA can be as much as $3,000 in 2003, since she's less than 50 years old. Harold, however, cannot make a deductible IRA contribution because their combined AGI is above the 2003 phaseout range for active participants who are married and filing jointly ($60,000 to $70,000 in 2003).

If Wendy and Harold filed separate returns, however, the amount that Wendy could contribute to her IRA, and still be able get a deduction, could be less than $3,000 if she earned less than $3,000. Her deductible contribution amount would be limited to the amount of her gross income this year.