



Individual Income Tax: IRAs, Alimony and Education-Related Adjustments

Course #3114D

Taxes

2 Credit Hours

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INDIVIDUAL INCOME TAX: IRAS, ALIMONY AND EDUCATION-RELATED ADJUSTMENTS

This course covers some of the adjustments to income that you can deduct in figuring your adjusted gross income. Topics discussed here include: IRAs, Alimony, and education related adjustments.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Individual Retirement Arrangements (IRAs)

Alimony

Education-Related Adjustments

Study the course materials from pages 1 to 46

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recall the thresholds, requirements, and additional taxes related to individual retirement arrangements.
- Recognize what is and is not alimony.
- Identify education-related adjustments that can be made to income.

NOTICE

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2022. There is a possibility some of these references will change.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs)

Chapter Objectives

After completing this chapter, you should be able to:

- Recall the thresholds, requirements, and additional taxes related to individual retirement arrangements.

I. WHAT'S NEW

Traditional IRA contribution and deduction limit. The contribution limit to your traditional IRA for 2022 will be the smaller of the following amounts:

- \$6,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2023, the most that can be contributed to your traditional IRA for 2022 will be the smaller of the following amounts:

- \$7,000, or
- Your taxable compensation for the year.

Roth IRA contribution limit. If contributions on your behalf are made only to Roth IRAs, your contribution limit for 2022 will generally be the lesser of:

- \$6,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2023 and contributions on your behalf were made only to Roth IRAs, your contribution limit for 2022 will generally be the lesser of:

- \$7,000, or
- Your taxable compensation for the year.

However, if your modified adjusted gross income (AGI) is above a certain amount, your contribution limit may be reduced.

Modified AGI limit for traditional IRA contributions increased. For 2022, if you were covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than \$109,000 but less than \$129,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$68,000 but less than \$78,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return.

If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is phased out if your AGI is more than \$204,000 but less than \$214,000. If your AGI is \$214,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Modified AGI limit for Roth contributions. For 2022, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying widow(er) and your modified AGI is at least \$204,000. You cannot make a Roth IRA contribution if your modified AGI is \$214,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2022, and your modified AGI is at least \$129,000. You cannot make a Roth IRA contribution if your modified AGI is \$144,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is \$10,000 or more.

II. IMPORTANT REMINDERS

THE FURTHER CONSOLIDATED APPROPRIATIONS ACT OF 2020

Among the provisions of the Further Consolidated Appropriations Act of 2020, for tax years beginning after 2019, the age restriction on contributions to traditional IRAs is repealed, and the age requirement for taking RMDs is increased to 72 (from 70½).

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT

The Coronavirus Aid, Relief, and Economic Security (CARES) Act made additional changes to IRAs and retirement plans. Among the changes are:

- The 10% early distribution penalty for those under 59½ does not apply for coronavirus-related distributions received in 2020 up to \$100,000. In addition, the early withdrawal penalty does not apply to qualified birth or adoption distributions up to \$5,000.
- The tax on a coronavirus-related distribution can be spread over three years.
- A coronavirus-related distribution can be recontributed within three years.

Statement of required minimum distribution. If a minimum distribution is required from your IRA, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the required minimum distribution to you, or offer to calculate it for you. The report or offer must include the date by which the amount must be distributed. The report is due January 31 of the year in which the minimum distribution is required. It can be provided with the year-end fair market value statement that you normally get each year. No report is required for IRAs of owners who have died.

IRA interest. Although interest earned from your IRA is generally not taxed in the year earned, it is not tax-exempt interest. Do not report this interest on your tax return as tax-exempt interest.

Net Investment Income Tax. For purposes of the Net Investment Income Tax (NIIT), net investment income does not include distributions from a qualified retirement plan including IRAs (for example 401(a), 403(a), 403(b), 408, 408A, or 457(b) plans). However, these distributions are taken into account when determining the modified adjusted gross income threshold. Distributions from a nonqualified retirement plan are included in net investment income.

Form 8606. To designate contributions as nondeductible, you must file Form 8606, Nondeductible IRAs.

Tip



The term “50 or older” is used several times in this chapter. It refers to an IRA owner who is age 50 or older by the end of the tax year.

III. INTRODUCTION

An individual retirement arrangement (IRA) is a personal savings plan that offers you tax advantages to set aside money for your retirement.

This chapter discusses:

1. The rules for a traditional IRA (any IRA that is not a Roth or SIMPLE IRA), and
2. The Roth IRA, which features nondeductible contributions and tax-free distributions.

Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLEs) are not discussed in this chapter.

IV. TRADITIONAL IRAs

In this chapter, the original IRA (sometimes called an ordinary or regular IRA) is referred to as a “traditional IRA.” Two advantages of a traditional IRA are:

1. You may be able to deduct some or all of your contributions to it, depending on your circumstances, and