**How much may an individual contribute to a Roth IRA?**

An eligible individual may contribute cash to a Roth IRA on his own behalf up to the *lesser of* the maximum annual contribution limit (equal to the “deductible amount” under IRC Section 219(b)(5)(A)) or 100 percent of *compensation* includable in his gross income for the taxable year. The amount that can be contributed, however, is *reduced by* any contributions made to traditional IRAs for the taxable year on his own behalf.[[1]](http://pro.nuco.com/taxfacts2015/tfempb/p8-irp/elig/Pages/3615-00-tf1.aspx?k=roth+ira" \l "_ftn1)

The maximum annual contribution limit is $5,500 in 2015. This amount is indexed for inflation. The maximum annual contribution limit is increased by $1,000 for individuals who have attained age 50 before the close of the tax year.

SEPs and SIMPLE IRAs may not be designated as Roth IRAs, and contributions to a SEP or SIMPLE IRA will not affect the amount that an individual can contribute to a Roth IRA. Qualified rollover contributions do not count towards the limit. Roth IRA contributions are not deductible and can be made even after the individual turns age 70½.

An individual may contribute cash to a Roth IRA *for a non-working spouse* for a taxable year up to the maximum deductible limit (disregarding active participant restrictions) permitted with respect to traditional IRAs for such non-working spouse reduced by any such contributions made to traditional IRAs for the taxable year on behalf of the non-working spouse. Thus, a married couple (both spouses under age 50) may be permitted a maximum contribution of up to $11,000 for 2015 ($5,500 for each spouse).

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In 2015, the Roth IRA contribution limit is $0 for (1) individuals with AGI of $131,000 and above ($129,000 in 2014), (2) married couples filing a joint return with AGI of $193,000 and above ($191,000 in 2014), and (3) a married individual filing

separately with AGI of $10,000 and above. Except for married individuals filing separately, the “applicable dollar amount” is indexed for inflation. The amount of the reduction is rounded to the next lowest multiple of $10. Unless the individual’s contribution limit is reduced to zero, the IRC permits a minimum contribution of $200.[[10]](http://pro.nuco.com/taxfacts2015/tfempb/p8-irp/elig/Pages/3615-00-tf1.aspx?k=roth+ira" \l "_ftn10)

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Can a taxpayer whose income level exceeds the limitations for Roth IRA contributions maintain a Roth IRA?

Yes. Despite the fact that a taxpayer whose income level exceeds the Roth IRA contribution limits cannot contribute directly to a Roth IRA, he or she is permitted to

maintain a Roth account. In 2015, the ability to make contributions to a Roth IRA begins to phase out for married taxpayers with income over $183,000 ($116,000 for single taxpayers). Roth contributions are completely blocked for married taxpayers who earn over $193,000 and single taxpayers who earn over $131,000.

While contributions cannot be made directly to the Roth if the taxpayer’s income exceeds the annual income threshold, for tax years beginning in 2010 and after, the income limits that applied to prevent high-income taxpayers from making rollovers from traditional IRAs were eliminated.

Therefore, many high-income taxpayers may make contributions indirectly to a Roth account, via a series of rollovers from traditional IRAs. The taxpayer must first open a traditional IRA if the taxpayer does not already maintain such an account (in 2015, each taxpayer can contribute up to $5,500 to an IRA ($6,500 if the taxpayer is 50 or older).[[3]](http://pro.nuco.com/taxfacts2015/tfempb/p8-irp/elig/Pages/3616-00-TF1.aspx?k=roth+ira#_ftn3) The taxpayer can then roll a portion of the IRA into a Roth account each year, though taxes must be paid on the amounts that are rolled over.

Can an individual roll over or convert a traditional IRA or other eligible retirement plan into a Roth IRA?

Yes.

A “qualified rollover contribution” can be made from a traditional IRA or any eligible retirement plan to a Roth IRA. A rollover was not permitted prior to 2010 if a taxpayer had adjusted gross income (“AGI”) of more than $100,000 for the taxable year of the distribution to which the rollover related or if the taxpayer was a married individual filing a separate return.

Amounts that are held in a SEP or a SIMPLE IRA that have been held in the account for two or more years also may be converted to a Roth IRA.

The taxpayer must include in income the amount of the distribution from the traditional IRA or other eligible retirement plan that would be includable if the distribution were not rolled over. Thus, if only deductible contributions were made to an eligible retirement plan, the entire amount of the distribution would be includable in income in the year rolled over or converted. (Special rules apply for conversions made in 2010). While the 10 percent early distribution penalty does not apply at the time of the conversion to a Roth IRA, it does apply to any converted amounts distributed during the five year period beginning with the year of the conversion.

When an individual retirement annuity is converted to a Roth IRA, or when an individual retirement account that holds an annuity contract as an asset is converted to

a Roth IRA, the amount that is deemed distributed is the fair market value of the annuity contract on the date of the (deemed) distribution. If, in converting to a Roth IRA, an IRA annuity contract is completely surrendered for its cash value, regulations provide that the cash received will be the conversion amount.

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**Can an individual correct a Roth conversion? What is a recharacterization?**

If a taxpayer has rolled over funds from a traditional IRA or other eligible retirement plan to a Roth IRA during the taxable year, and later discovers that his or her AGI is in excess of $100,000 in a year before 2010 (or for any other reason wants the transaction undone), the taxpayer generally has until the due date for filing his or her return (including extensions) to correct such a conversion without penalty, to the extent all earnings and income allocable to the conversion are also transferred back to the original IRA, and no deduction had been allowed with respect to the original conversion.[[1]](http://pro.nuco.com/taxfacts2015/tfempb/p8-irp/elig/Pages/3618-00-TF1.aspx?k=3618#_ftn1) This “recharacterization” in the form of a trustee-to-trustee transfer results in the recharacterized contribution being treated as a contribution made to the transferee IRA, instead of to the transferor IRA. A taxpayer can apply to the IRS for relief from the time limit for making a recharacterization.

A time restriction is placed on reconversions (i.e., converting to a Roth IRA a second time after recharacterizing a first conversion). A person can reconvert back to a Roth IRA but only after the later of the beginning of the next year or thirty days after the recharacterization.[[5]](http://pro.nuco.com/taxfacts2015/tfempb/p8-irp/elig/Pages/3618-00-TF1.aspx?k=3618#_ftn5)

Where the value of converted property drops after a conversion to a Roth IRA, it may be useful to recharacterize the contribution back to the other type of IRA and then reconvert to a Roth IRA to reduce the amount taxable on converting to a Roth IRA. The time restriction on reconversions reduces, but does not eliminate, the potential value of this technique.

Reconversions and recharacterizations must be reported to IRS on Form 1099-R and Form 5498. Prior year recharacterizations must be reported under separate codes. All recharacterized contributions received by an IRA in the same year are permitted to be totaled and reported on a single Form 5498.