IRS Makes 2021 IRA Cost-of-Living-Adjustments

Understanding the income ranges and contribution limits for next year

Tax law places limits on the dollar amount of contributions that you can make to Individual Retirement Accounts and by law, the IRS is required to adjust these limits annually for cost-of-living increases.

Going into 2021, you should familiarize yourself with these adjustments, so that you're better informed as we plan for your retirement.

Highlights of the 2021 Changes

As you probably know, you can deduct contributions to a traditional IRA if you meet certain conditions, but the amount of the deduction will depend on your income (or joint income). Specifically, if you or your spouse are covered by a retirement plan at work, then the deduction may be reduced or phased out altogether.

As such, it is important to be aware of the income ranges that the IRS uses for determining eligibility to make deductible contributions as these income ranges and the dollar amount of allowed contributions can change from year to year with cost-of-living-adjustments. Further, it's important to know the differences between a traditional and a Roth IRA too.

IRAs	**2021**	**2020**
IRA Contribution Limit	$6,000	$6,000
IRA Catch-Up Contributions	1,000	1,000
Traditional IRA AGI Deduction Phase-out Starting at	**2021**	**2020**
Joint Return	105,000	104,000
Single or Head of Household	66,000	65,000
SEP	**2021**	**2020**
SEP Maximum Contribution	58,000	57,000
SEP Maximum Compensation	290,000	285,000
SIMPLE Plans	**2021**	**2020**
SIMPLE Maximum Contributions	13,500	13,500
Catch-up Contributions	3,000	3,000
401(k), 403(b), Profit-Sharing Plans, etc.	**2021**	**2020**
Annual Compensation	290,000	285,000
Elective Deferrals	19,500	19,500
Catch-up Contributions	6,500	6,500

Phase-out Ranges

Here are the traditional IRA phase-out ranges for 2021, lifted directly from the IRS:

- $66,000 to $76,000 – Single taxpayers covered by a workplace retirement plan.
- $105,000 to $125,000 – Married couples filing jointly. This applies when the spouse making the IRA contribution is covered by a workplace retirement plan.
- $198,000 to $208,000 – A taxpayer not covered by a workplace retirement plan married to someone who's covered.
- $0 to $10,000 – Married filing a separate return. This applies to taxpayers covered by a workplace retirement plan.

Here are the income phase-out ranges for taxpayers making contributions to a Roth IRA:

- $125,000 to $140,000 – Single taxpayers and heads of household.
- $198,000 to $208,000 – Married, filing jointly.
- $0 to $10,000 – Married, filing separately.

What Should You Do?

Taxes are complicated enough and reading, learning and implementing tax strategies that are most appropriate for you can be a daunting task.

As we head into the new year, as your financial advisor I will confirm that the tax decisions you make are consistent with your overall financial plan.