

Traditional IRAs

For individuals who qualify, a smart way to build a retirement nest egg is to take advantage of the tax-deferred growth offered through a traditional IRA.

Contribution Limits

Contributions can be funded until April 15 of the following year up to age 70 ½. Your spouse can do the same.

Traditional IRAs may be:

- Tax-deductible (for taxpayers who are not participants in an employer retirement plan or plan participants with income below certain levels).
- Non-deductible (for taxpayers with earned income who fail to qualify for a deductible IRA).

The maximum annual IRA contribution levels are as follows:

2011	\$5,000
2012	Indexed to Inflation

In addition, people age 50 or over can contribute an additional \$1,000.00 for 2011 and after.

Early Distributions

Traditional IRAs allow distributions prior to age 59 ½ for the following situations. (Although the 10% tax penalty does not apply, distributions from traditional IRAs are still subject to income tax.)

- You have unreimbursed medical expenses that are more than 7.5% of your adjusted gross income.
- The distributions are not more than the cost of your medical insurance.
- You are disabled.
- You are the beneficiary of a deceased IRA owner.
- You are receiving distributions in the form of an annuity.
- The distributions are not more than your qualified higher education expenses.
- You use the distributions to buy, build, or rebuild a first home.
- The distribution is due to an IRS levy of the qualified plan.
- The distribution is a qualified reservist distribution.

Age Limits

You may contribute to a traditional IRA until you reach age 70 ½.

Tax Deduction Eligibility

Deductible IRAs provide a double tax benefit. Contributions and all earnings may be tax-deferred until withdrawn. You can also deduct (from taxable income) the full amount contributed if you are in an employer-sponsored retirement plan, but your adjusted gross income (AGI) is under a certain level.

Once your AGI is over that amount, a phase-out range applies and you will only be allowed to deduct a portion of your contribution. The deduction is eliminated completely when your AGI reaches the maximum amount. Consult your tax advisor on the extent of your deductible contribution.

The IRS no longer considers one spouse an “active participant” in a retirement plan simply because the other spouse has an employer-sponsored plan. As a result, the spouse who does not have an employer-sponsored retirement plan can now make a tax-deductible contribution to an IRA, provided the couple’s AGI is less than \$179,000.

Periodic Distribution

Generally, the earliest you can receive periodic payments from your traditional IRA without a federal tax penalty is at age 59 ½. However, you do not need to be retired before you tap your IRA resources. Periodic payments from your IRA must begin no later than April 1 of the year following the year you reach age 70 ½. You may choose to receive payments from your IRA in one lump sum, monthly, quarterly, or yearly. When you do begin withdrawing cash, your funds are considered taxable income in the year you withdraw them. However, your tax rate will probably be lower at retirement, reducing the amount of taxes you pay.

Nonqualified Withdrawals

If you make nonqualified withdrawals from a traditional IRA, you will be required to pay a federal tax penalty of 10% on the amount withdrawn, and the amount will be considered taxable income for the year in which the withdrawal was made.

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