

TAX DEDUCTIBILITY OF IRA CONTRIBUTIONS

AVOID TAX PENALTIES!

**Do you have an
Individual Retirement Account?**

**Are you a board or commission member who
belongs to PERSI?**

What is your adjusted gross income?

**This brochure may help you understand the tax
laws and regulations limiting the deductibility of IRA
contributions for board and commission members.**



The Law

The Tax Reform Act of 1986 placed restrictions on the tax deductibility of contributions to Individual Retirement Accounts (IRA) under certain circumstances. This law does not limit participation in an IRA, but it does place restrictions on the deductibility of contributions. Participation in an employer-sponsored retirement plan and having an adjusted gross income (AGI) that exceeds certain amounts makes some people ineligible for the tax-deduction benefits of an IRA. Board and Commission members are among those who could be affected by this law.

Unique Circumstances for State Board/Commission Members

For most PERSI members, the benefit of being a member outweighs the IRA tax advantages; for others, it's a little more complicated. Board/Commission members are minimally compensated for their services. But because they are paid, they are generally PERSI members. As members of a qualified retirement plan, the tax-deferred contributions Board/Commission members make to personal IRAs are subject to exclusions under the Tax Reform Act. This limits the retirement planning options for Board/Commission members; and for some, it has resulted in penalties and interest on IRA deductions previously taken. Many think by simply refusing the stipend, they are waiving PERSI membership and can continue tax-deferred contributions to their personal IRA. It's not that simple. According to IRS Publication 590, *If you are eligible to participate in an employer-sponsored defined benefit plan, you are a member of that plan even if you decline to participate, don't make any contributions, and do not perform the minimum service required to accrue a benefit.*

Effect of Modified Adjusted Gross Income on Deduction if Covered by Retirement Plan at Work.

If you are covered by a retirement plan at work, the table below can help you determine if your modified AGI affects the amount of your deduction.

IF your filing status is...	AND your modified AGI is...	THEN you can take...
Single or Head of Household	\$55,000 or less	Full Deduction
	More than \$55,000 but less than \$65,000	Partial Deduction
	\$65,000 or more	No Deduction
Married Filing Jointly or Qualifying Widow(er)	\$89,000 or less	Full Deduction
	More than \$89,000 but less than \$109,000	Partial Deduction
	\$109,000 or more	No Deduction
Married Filing Separately ¹	Less than \$10,000	Partial Deduction
	\$10,000 or more	No Deduction

¹ If you did not live with your spouse at any time during the year, your filing status is considered single for this purpose; therefore, your IRA deduction is determined under the Single filing status.

Consult your tax attorney or financial advisor about your specific situation.

PERSI Answer Center: (208) 334-3365 or toll-free 1(800) 451-8228

Weigh Your Options Before Taking The Exemption

What is your adjusted gross income?

- Some Board/Commission members earn less than the gross taxable income limits used by the IRS to disallow the deductibility of IRAs. If your AGI is below the limits, partial or even full deductions are allowed.

What other retirement savings options are available?

- A number of other savings vehicles are available to Board/Commission members that are not affected by the Tax Reform Act, including employer-sponsored retirement plans such as 401(k), profit sharing, SEP-IRA, and Roth IRAs. Board members may belong to PERSI and contribute to these without any tax consequences.

Will the lifetime benefits accrued as a PERSI member offset the tax break you get on a personal IRA now?

- Even a minimum benefit from PERSI over your lifetime, especially with Cost of Living Adjustments, may prove more beneficial in the long run.

Is there value in having the PERSI disability retirement benefit available to you?

- A Board/Commission member with five years of service, who becomes totally and permanently disabled and unable to perform any work, may be eligible for a lifetime disability benefit regardless of age at the time they are determined to be disabled.

How much will you benefit from being able to count the months of service earned as a Board/Commission member?

- Months of service are used when calculating your PERSI retirement benefit. Typically, the benefit from PERSI is greater than the value of the contributions.

Because the tax law is complicated, Board members are urged to consult a tax advisor before making a decision on exempting themselves from PERSI membership in favor of a personal IRA.

PERSI Benefits For Board Members

Most Board members receive what is called a “minimum benefit” if their average monthly salary from the Board position is less than the threshold for a regular benefit. The threshold for general members, which went into effect March 1, 2009, is \$1161. The benefit is calculated to be a monthly payment factor of \$23.22 for each year of minimum benefit service to a maximum of the highest three-year average. The member must be vested and age 65 to receive this minimum benefit.

PERSI cannot pay a member a retirement allowance greater than the average monthly salary of the highest three consecutive years of salary. Simply put, a member cannot receive more for his or her initial retirement benefit than he/she earned while an active member. This means if your monthly board salary is \$50 and you have no other PERSI service, your initial retirement benefit would be capped at \$50 a month.

Exception: If the member’s accrued benefit up to April 30, 1990, is greater than the high 36-month average salary, the member will be vested to the accrued benefit as of April 30, 1990. Therefore, the cap on a member’s benefit is the greater of either:

1. the member’s monthly average of 36 consecutive months of service regardless of whether salary was received every month; or
2. the accrued benefits as of April 30, 1990.

Example: Board members who attend 12 meetings a year at \$50 per meeting will have a 36-month average salary of \$50 so their benefit is capped at \$50 per month.