Financial Planning Tax Considerations: Retirement Part 2

Course #30905B

Taxes

2 Credit Hours

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FINANCIAL PLANNING TAX CONSIDERATIONS: RETIREMENT PART 2

This course covers the tax rules and benefits of different types of individual retirement arrangements (IRAs), including Traditional, Roth, SEP, and SIMPLE IRAs. It explains how contributions, withdrawals, and income limits impact tax treatment, helping individuals make informed retirement planning decisions.

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

Financial Planning Tax Considerations: Retirement Part 2

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify the different tax rules and implications as they apply to the different types of individual retirement arrangements (IRAs).

NOTICE

Program publication date **9/15/25**

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)

Objective

After completing, you should be able to:

- Identify the different tax rules and implications as they apply to the different types of individual retirement arrangements (IRAs).

An individual retirement arrangement (IRA) is a personal savings plan that gives individual taxpayers tax advantages for setting aside money for retirement. Two tax advantages of an IRA are that:

- Contributions made to an IRA may be fully or partially deductible, depending on the type of IRA and the taxpayers individual circumstances; and
- Generally, amounts in a taxpayer's IRA (including earnings and gains) are not taxed until distributed. In some cases, amounts are not taxed at all if distributed according to the rules.

I. TRADITIONAL IRA

This section discusses the original IRA. In this course the original IRA (sometimes called an ordinary or regular IRA) is referred to as a "traditional IRA."

A. ELIGIBILITY REQUIREMENTS

An individual can set up and make contributions to a traditional IRA if:

- The individual (or, if he or she files a joint return, his or her spouse) received taxable compensation during the year.

Individuals can have a traditional IRA whether or not they are covered by any other retirement plan. However, individuals may not be able to deduct all of their contributions if they or their spouse is covered by an employer retirement plan.

Note

For tax years beginning after December 31, 2019, the rule that you are not able to make contributions to your traditional IRA for the year in which you reach age 70½ and all later years has been repealed.

TABLE 12-1. HOW ARE A TRADITIONAL IRA AND A ROTH IRA DIFFERENT?

This table shows the differences between traditional and Roth IRAs. Answers in the middle column apply to traditional IRAs. Answers in the right column apply to Roth IRAs.

Question	Traditional IRA	Roth IRA
Age limits to set up and contribute to an IRA	After 2019, can be established and contributed to at any age	Can be established at any age
Earnings and contribution limits	No upper limit on how much a taxpayer can earn and still contribute; contribution limits determined annually	Some limits based on income, filing status and whether taxpayer contributes to another IRA
Deductibility of contributions	Taxpayers may be able to deduct contributions to IRA depending on income, filing status, and whether they are covered by a retirement plan at work or receive social security benefits	Contributions to Roth IRA are never deductible
Filing requirement for contributions	No filing required unless taxpayer made nondeductible contributions to traditional IRA (in which case Form 8606 must be filed)	No filing required for contributions to Roth IRA
Mandatory distributions	Taxpayers must begin receiving required minimum distributions by April 1 of the year following the year they reach age 73	Owners of Roth IRA not required to take distributions regardless of age
Taxation of distributions	Distributions from a traditional IRA are taxed as ordinary income, but if taxpayer made nondeductible contributions, not all of the distribution is taxable	Distributions from Roth IRA are not taxed as long as the owner meets certain criteria
Reporting of distributions	No reporting requirements unless taxpayers ever made nondeductible contributions to traditional IRA (then must file Form 8606)	Owners must file Form 8606 if they receive distributions from a Roth IRA (other than a rollover, qualified charitable contribution, one-time distribution to fund an HSA, recharacterization, certain qualified distributions, or a return of certain contributions)

If both the individual and his or her spouse have compensation, each can set up an IRA, but cannot both participate in the same IRA.

B. COMPENSATION

Generally, compensation is what an individual earns from working, i.e., wages, salaries, tips, professional fees and other amounts received for providing services. For self-employed individuals, compensation is the net earnings from the person's trade or business (provided their personal services are a material income-producing factor) reduced by the total of:

- The deduction for contributions made on the individual's behalf to retirement plans; and
- The deduction allowed for one-half of self-employment taxes.

When an individual has both self-employment income and salaries and wages, his or her compensation includes *both* amounts. If an individual has a net loss from self-employment, he or she may not subtract the loss from his or her salaries or wages when figuring his or her total compensation.

1. Alimony and Separate Maintenance

For IRA purposes, compensation includes any taxable alimony and separate maintenance payments received under a decree of divorce or separate maintenance.

Note

Taxable alimony only relates to a decree of divorce or separation instrument executed on or before December 31, 2018, that has not been modified to exclude such amounts.

TABLE 12-2. COMPENSATION FOR PURPOSES OF AN IRA

Compensation Includes:	Compensation Does Not Include:
• Wages, salaries, etc. • Commissions • Self-employment income • Taxable alimony and separate maintenance (instruments executed before December 31, 2018) • Nontaxable combat pay • Taxable non-tuition fellowship and stipend payments	• Earnings and profits from property • Interest and dividend income • Pension or annuity income • Deferred compensation • Income from certain partnerships • Any amounts excluded from income

C. TYPES OF TRADITIONAL INDIVIDUAL RETIREMENT ARRANGEMENTS

A traditional IRA can be an individual retirement account or annuity. It can be part of either a simplified employee pension (SEP) or an employer or employee association trust account.