PacificCPE

COURSE
31054C

Individual Income Tax: Adjustments Part 1

Get up to speed on individual retirement arrangements, including traditional IRAs, Roth IRAs, contribution limits, deductibility phase-outs, and the newly introduced Trump Accounts. This course also covers alimony rules, distinguishing between pre- and post-2018 divorce instruments, general treatment requirements, and the recapture rule. Perfect for practitioners advising clients on retirement savings strategies or navigating divorce-related tax issues on individual returns.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the thresholds, requirements, and additional taxes related to individual retirement arrangements.
- Recognize what is and is not alimony.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: November 2025

TABLE OF CONTENTS

CHAPTER 01

Individual Retirement Arrangements (Iras) 4

1.01 I. What'S New 4

1.02 Ii. Important Reminders 5

1.03 Iii. Introduction 6

1.04 Iv. Traditional Iras 7

1.05 V. Roth Iras 25

1.06 Vi. Trump Accounts 32

Test Your Knowledge 34

CHAPTER 02

Alimony 42

2.01 I. Reminder 42

2.02 Ii. Introduction 42

2.03 Iii. General Rules 44

2.04 Iv. Instruments Executed After 1984 And Before 2019 45

2.05 V. Recapture Rule 46

Test Your Knowledge 50

Final Exam Copy 54

Glossary 52

Index .....

Chapter 1: INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs)

Chapter Objective

After completing this chapter, you should be able to:

- Recall the thresholds, requirements, and additional taxes related to individual retirement arrangements.

I. WHAT'S NEW

Traditional IRA contribution and deduction limit. The contribution limit to your traditional IRAfor 2025 will be the smaller of the following amounts:

- $7,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2026, the most that can be contributed to your traditional IRA for 2025 will be the smaller of the following amounts:

- $8,000, or
- Your taxable compensation for the year.

Roth IRAcontribution limit. If contributions on your behalf are made only to Roth IRAs, your contribution limit for 2025 will generally be the lesser of:

- $7,000, or
- Your taxable compensation for the year.

If you were age 50 or older before 2026 and contributions on your behalf were made only to Roth IRAs, your contribution limit for 2025 will generally be the lesser of:

- $8,000, or
- Your taxable compensation for the year.

However, if your modified adjusted gross income (AGI) is above a certain amount, your contribution limit may be reduced.

Modified AGI limit for traditional IRA contributions increased. For 2025, if you were covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than $126,000 but less than $146,000 for a married couple filing a joint return or a qualifying surviving spouse,
- More than $79,000 but less than $89,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return.

If you either lived with your spouse or file a joint return, and your spouse was covered by a retirement plan at work, but you were not, your deduction is phased out if your AGI is more than $236,000 but less than $246,000. If your AGI is $246,000 or more, you cannot take a deduction for contributions to a traditional IRA.

Modified AGI limit for Roth contributions. For 2025, your Roth IRA contribution limit is reduced (phased out) in the following situations.

- Your filing status is married filing jointly or qualifying surviving spouse and your modified AGI is at least $236,000. You cannot make a Roth IRA contribution if your modified AGI is $246,000 or more.
- Your filing status is single, head of household, or married filing separately and you did not live with your spouse at any time in 2025, and your modified AGI is at least $150,000. You cannot make a Roth IRA contribution if your modified AGI is $165,000 or more.
- Your filing status is married filing separately, you lived with your spouse at any time during the year, and your modified AGI is more than -0-. You cannot make a Roth IRA contribution if your modified AGI is $10,000 or more.

Trump Account. The OBBBA creates a new tax-deferred investment account for children called the “Trump account.” These accounts are discussed later in this chapter.

II. IMPORTANT REMINDERS

SECURE ACT AND SECURE 2.0 ACT

Among the provisions of the SECURE Act, for tax years beginning after 2019, the age restriction on contributions to traditional IRAs was repealed, and the age requirement for taking RMDs was increased to 72 (from 70½). Subsequently, among the provisions of the SECURE 2.0 Act, signed in December 2022, the age requirement for taking RMDs was increased to 73 for individuals who had not reached age 72 before January 1, 2023.

Statement of required minimum distribution. If a minimum distribution is required from your IRA, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the required minimum distribution to you, or offer to calculate it for you. The report or offer must include the date by which the amount must be distributed. The report is due January 31 of the year in which the minimum distribution is required. It can be provided with the year-end fair market value statement that you normally get each year. No report is required for IRAs of owners who have died.

IRA interest. Although interest earned from your IRA is generally not taxed in the year earned, it is not tax-exempt interest. Do not report this interest on your tax return as tax-exempt interest.

Net Investment Income Tax. For purposes of the Net Investment Income Tax (NIIT), net investment income does not include distributions from a qualified retirement plan including IRAs (for example 401(a), 403(a), 403(b), 408, 408A, or 457(b) plans). However, these distributions are taken into account when determining the modified adjusted gross income threshold. Distributions from a nonqualified retirement plan are included in net investment income. Form 8606. To designate contributions as nondeductible, you must file Form 8606, Nondeductible IRAs.

Tip

The term “50 or older” is used several times in this chapter. It refers to an IRA owner who is age 50 or older by the end of the tax year.

III. INTRODUCTION

An individual retirement arrangement (IRA) is a personal savings plan that offers you tax advantages to set aside money for your retirement. This chapter discusses:

1. The rules for a traditional IRA (any IRA that is not a Roth or SIMPLE IRA), and
2. The Roth IRA, which features nondeductible contributions and tax-free distributions.

Simplified Employee Pensions (SEPs) and Savings Incentive Match Plans for Employees (SIMPLEs) are not discussed in this chapter.

IV. TRADITIONAL IRAs

In this chapter, the original IRA (sometimes called an ordinary or regular IRA) is referred to as a "traditional IRA." Two advantages of a traditional IRA are:

1. You may be able to deduct some or all of your contributions to it, depending on your circumstances, and
2. Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

HOW MUCH CAN BE CONTRIBUTED?

There are limits and other rules that affect the amount that can be contributed and the amount you can deduct. These limits and some of the other rules are explained below.

General limit. For 2025, the most that can be contributed to your traditional IRA generally is the smaller of the following amounts:

1. $7,000 ($8,000 if you are 50 or older in 2025), or
2. Your taxable compensation (defined earlier) for the year.

This is the most that can be contributed regardless of whether the contributions are to one or more traditional IRAs or whether all or part of the contributions are nondeductible. (See Nondeductible Contributions, later.) Qualified reservist payments do not affect this limit.

Example 1

Betty, who is 34 years old and single, earned $24,000 in 2025. Her IRA contributions for 2025 are limited to $7,000.

Example 2

John, anunmarriedcoll ege student workingparttime, earned $3,500 in2025. His IRA contributions for 2025 are limited to $3,500, the amount of his compensation.

Kay Bailey Hutchison Spousal IRA limit. For 2025, if you file a joint return and your taxable compensation is less than that of your spouse, the most that can be contributed for the year to your IRA is the smaller of the following amounts:

1. $7,000 ($8,000 if you are 50 or older).

2. The total compensation includible in the gross income of both you and your spouse for the year, reduced by the following two amounts.
    a) Your spouse's contribution for the year to a traditional IRA.
    b) Any contribution for the year to a Roth IRA on behalf of your spouse.

This means that the total combined contributions that can be made for the year to your IRA and your spouse's IRA can be as much as $14,000 ($15,000 if only one of you is 50 or older, or $16,000 if both of you are 50 or older).

WHEN CAN CONTRIBUTIONS BE MADE?

As soon as you open your traditional IRA, contributions can be made to it through your chosen sponsor (trustee or other administrator). Contributions to a traditional IRA must be in the form of money (cash, check, or money order). Property cannot be contributed.

Contributions must be made by due date. Contributions can be made to your traditional IRAfor a year at any time during the year or by the due date for filing your return for that year, not including extensions.

Designating year for which contribution is made. If an amount is contributed to your traditional IRA between January 1 and April 15, you should tell the sponsor which year (the current year or the previous year) the contribution is for. If you do not tell the sponsor which year it is for, the sponsor can assume, and report to the IRS, that the contribution is for the current year (the year the sponsor received it).

Filing before a contribution is made. You can file your return claiming a traditional IRA contribution before the contribution is actually made. Generally, the contribution must be made by the due date of your return, not including extensions.

Contributions not required. You do not have to contribute to your traditional IRA for every tax year, even if you can.

HOW MUCH CAN YOU DEDUCT?

Generally, you can deduct the lesser of:

- The contributions to your traditional IRA for the year, or
- The general limit (or the Kay Bailey Hutchison Spousal IRA limit, if it applies). However, if you or your spouse was covered by an employer retirement plan, you may not be able to deduct this amount. See Limit If Covered by Employer Plan, later.

Trustees' fees. Trustees' administrative fees that are billed separately and paid in connection with your traditional IRA are not deductible as IRA contributions. You are also not able to deduct these fees as an itemized deduction.

Brokers' commissions. Brokers' commissions are part of your IRA contribution and, as such, are deductible subject to the limits.

Full deduction. If neither you nor your spouse was covered for any part of the year by an employer retirement plan, you can take a deduction for total contributions to one or more traditional IRAs of up to the lesser of:

1. $7,000 ($8,000 if you are 50 or older in 2025), or
2. 100% of your compensation.

This limit is reduced by any contributions made to a 501(c)(18) plan on your behalf.

Kay Bailey Hutchison Spousal IRA. In the case of a married couple with unequal compensation who file a joint return, the deduction for contributions to the traditional IRA of the spouse with less compensation is limited to the lesser of:

1. $7,000 ($8,000 if 50 or older in 2025), or
2. The total compensation includible in the gross income of both spouses for the year reduced by the following three amounts.
    a) The IRA deduction for the year of the spouse with the greater compensation.
    b) Any designated nondeductible contribution for the year made on behalf of the spouse with the greater compensation.
    c) Any contributions for the year to a Roth IRA on behalf of the spouse with the greater compensation.

This limit is reduced by any contributions to a 501(c)(18) plan on behalf of the spouse with the lesser compensation.

Covered by an employer retirement plan. If you or your spouse was covered by an employer retirement plan at any time during the year for which contributions were made, your deduction may be further limited. This is discussed later under Limit If Covered by Employer Plan. Limits on the amount you can deduct do not affect the amount that can be contributed. See Nondeductible Contributions, later.

Defined contribution plan. Generally, you are covered by a defined contribution plan for a tax year if amounts are contributed or allocated to your account for the plan year that ends with or within that tax year.

A defined contribution plan is a plan that provides for a separate account for each person covered by the plan. Types of defined contribution plans include profit-sharing plans, stock bonus plans, and money purchase pension plans.

Defined benefit plan. If you are eligible to participate in your employer's defined benefit plan for the plan year that ends within your tax year, you are covered by the plan. This rule applies even if you:

- Declined to participate in the plan,
- Did not make a required contribution, or
- Did not perform the minimum service required to accrue a benefit for the year. A defined benefit plan is any plan that is not a defined contribution plan. Defined benefit plans include pension plans and annuity plans.

No vested interest. If you accrue a benefit for a plan year, you are covered by that plan even if you have no vested interest in (legal right to) the account or the accrual.

Limit If Covered by Employer Plan

If either you or your spouse was covered by an employer retirement plan, you may be entitled to only a partial (reduced) deduction or no deduction at all, depending on your income and your filing status. Your deduction begins to decrease (phase out) when your income rises above a certain amount and is eliminated altogether when it reaches a higher amount. These amounts vary depending on your filing status. To determine if your deduction is subject to phaseout, you must determine your modified adjusted gross income (AGI) and your filing status. Then use Table 17-1 or 17-2 to determine if the phaseout applies. [1]

TABLE 17-1. EFFECT OF MODIFIED AGI ON DEDUCTION IF YOU ARE COVERED BY RETIREMENT PLAN AT WORK

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.