

TAX DEDUCTIBILITY OF IRA CONTRIBUTIONS

Do you have an Individual Retirement Account (IRA)?
Are you a board or commission member who belongs to PERSI?
What is your adjusted gross income?

This flyer 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 (TRA) 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 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 and 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 TRA. 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 board and commission members think by simply refusing the stipend, they are waiving PERSI membership and can continue tax-deferred contributions to their personal IRA; however, **for those who are eligible, PERSI participation is not optional.** 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.*

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, 2011, is \$1,184. The benefit is calculated to be a monthly payment factor of \$23.68 for each year of minimum benefit service to a maximum of the highest 3-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 3 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.



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	\$58,000 or less	Full Deduction
	More than \$58,000 but less than \$68,000	Partial Deduction
	\$68,000 or more	No Deduction
Married Filing Jointly or Qualifying Widow(er)	\$92,000 or less	Full Deduction
	More than \$92,000 but less than \$112,000	Partial Deduction
	\$112,000 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 Member Services Answer Center toll-free 1-800-451-8228 or 208-334-3365 from the Treasure Valley area.

If there is any discrepancy between this document and the law, the provisions of the law will prevail.