

Dear Client/Friend,

Even though you have until April 15, 2005 to make your 2004 IRA contribution, this is also a good time to think about funding your IRA for 2005. Funding your IRA early in a tax year maximizes your return since your contribution can earn over a year's worth of additional tax-deferred earnings. Additionally, recent tax law changes have increased the allowable maximum annual contribution amounts for both traditional and Roth IRAs.

For tax years 2005 through 2007, the maximum IRA contribution is \$4,000, up from \$3,000 in 2004. Also, an individual who reaches age 50 by the end of the year is allowed an additional "catch-up" contribution of \$500 per year. Individuals who are not active participants in an employer's pension plan should welcome this news.

Roth IRAs permit maximum non-deductible contributions of \$4,000 in 2005 (up from \$3,000 in 2004). Roth IRAs also allow a catch-up contribution of \$500 for individuals who are 50 or older. The maximum Roth IRA contribution is phased out for single individuals with adjusted gross income between \$95,000 and \$110,000; for married persons filing a joint return, the phase-out range is between \$150,000 and \$160,000 of adjusted gross income.

For those individuals who are active participants in an employer retirement plan, IRA contributions may also be a possibility, depending on your annual adjusted gross income. For 2004, the modified adjusted gross income phase-out range for deductible IRA contributions by single individuals covered under an employer plan is between \$45,000 and \$55,000, and between \$65,000 and \$75,000 for married persons filing a joint return.

Additionally, if you are married and file a joint return with a spouse who is covered by an employer retirement plan, you may be able to contribute to an IRA even if you yourself have no income for the year. The full deduction (\$4,000 for 2005) is allowed as long as your combined modified adjusted gross income for the year is less than \$150,000.

Recent legislation has also provided enhancements for other tax-favored retirement vehicles such as 401(k) and 403(b) plans. For individuals participating in such plans, the maximum elective deferral for 2005 is \$14,000. The new legislation also allows employees who will be age 50 by the end of the year to make additional catch-up contributions up to \$4,000 for 2005, as long as their employer has amended its plan to provide for these catch-up contributions. As a reminder, even if your employer does not require you to set your 2005 retirement contribution early in the year, it is generally a good tax-saving move to do so.

If you feel that any of these new rules may benefit you, please feel free to contact one of our tax professionals. We would be pleased to discuss these new retirement savings opportunities with you.

Sincerely,

Linda Hadley

