Corbett Road

In The Media

How to Make a Last-Minute IRA Contribution

There's still time to meet the IRA contribution deadline for 2023.

— By Emily Brandon and Rachel Hartman | January 9, 2024

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You don't have to pay income tax on the investment growth in your traditional IRA each year. Taxes won't be due on the retirement savings in an IRA until you withdraw the money from the account.

Key Takeaways:

- Making a last-minute contribution to an IRA before the 2024 tax filing deadline could reduce your 2023 tax bill.
- Be aware of the income limits associated with IRAs and Roth IRAs to see if you're eligible for a tax deduction.
- You might decide to set up automatic contributions going forward to save on a consistent basis.
- Depending on your income level, you could also qualify for the saver's credit.

It's not too late to reduce your 2023 tax bill if you are willing to set some cash aside for retirement. The deadline to make an individual retirement account contribution that will decrease your 2023 tax bill or even boost your tax refund is the due date of your tax return, which for most people is April 15, 2024.

Here's how and why you should make a last-minute IRA contribution:

- Reduce your 2023 tax bill.
- Watch for IRA income limits.
- Defer income tax on future investment gains.
- Create tax-free retirement income with a Roth IRA.
- Use your tax refund to fund an IRA.
- Make sure your IRA contribution applies to the correct year.
- Avoid spending temptations.
- Qualify for the saver's credit.

Reduce Your 2023 Tax Bill

As you prepare your tax return, you can plug in an IRA contribution to see exactly how much your tax bill will decline. For example, a worker who pays a 24% tax rate and contributes $6,500 to an IRA will pay $1,560 less in federal income tax. Taxes won't be due on that money until it is withdrawn from the account.

The last day to contribute to an IRA for 2023 is the tax filing deadline in April 2024. "Contributing to an IRA can assist in lowering taxes owed or even increase your refund," said Georgia Lord, a certified financial planner at Corbett Road Wealth Management in New York City, in an email.

You can defer paying income tax on up to $6,500 that you contribute to an IRA in 2023, or $7,500 if you are age 50 or older. Married couples can open an account in each of their names for double the tax break.

Watch Out for IRA Income Limits

If you have access to a 401(k) plan at work, the IRA tax deduction is phased out for those with a modified adjusted gross income between $73,000 and $83,000 as an individual and $116,000 to $136,000 for married couples in tax year 2023. If only one member of the married couple has a 401(k) account, the IRA income limits climb to $218,000 to $228,000 for 2023.

"Waiting to make a 2023 IRA contribution until early 2024, before tax day, can be helpful because there are no income surprises," said Kathryn Kubiak-Rizzone, certified financial planner and founder of About Time Financial Planning in Rochester, New York, in an email. You'll be able to see if you're eligible to contribute based on what you earned the previous year.

Defer Income Tax on Investment Gains

You don't have to pay income tax on the investment growth in your traditional IRA each year. Taxes won't be due on the retirement savings in an IRA until you withdraw the money from the account. If you drop into a lower tax bracket in retirement, you will pay less tax on your retirement savings and reduce your lifetime tax bill by saving in an IRA.

For example, a worker paying a 24% tax rate would pay $1,200 in income tax on $5,000 worth of income. However, if he saves that $5,000 in an IRA and withdraws it in retirement after he has dropped into paying a 12% rate, he will pay only $600 for income tax on the IRA distribution.

Create Tax-Free Retirement Income With a Roth IRA

An after-tax Roth IRA allows you to pay your current tax rate on your Roth IRA contributions. That means withdrawals in retirement, including investment earnings, are typically tax-free.

Those who earn less than $153,000 as an individual or $228,000 as a married couple are eligible to make a Roth IRA contribution for 2023. The ability to make a Roth IRA deposit is partially phased out for individuals who earn more than $138,000 and couples with a modified adjusted gross income over $218,000.

Use Your Tax Refund to Fund an IRA

IRS form 8888 allows you to directly deposit part or all of your tax refund in an IRA. You can file a tax return claiming a tax deduction for an IRA deposit before the money is in the account as long as you make the contribution by your tax filing deadline.

“Don’t forget to invest the money once it has landed in your account,” Kubiak-Rizzone said. “Some accounts may have automatic investments set up, but many others do not. Set a reminder for yourself to log back into your account a few days after making your contribution to actually invest the money so it has the opportunity to grow over time.”

Make Sure Your IRA Contribution Is Applied to the Correct Tax Year

Take care to specify that you want the contribution to be applied to your 2023 tax return because IRA providers are allowed to automatically count the deposit toward the calendar year in which it is received unless you indicate otherwise.

"Make sure your contribution is marked as 2023 and not 2024,” Lord said. “Depending on your financial institution, this might mean manually selecting the correct year.”

Avoid Spending Temptations

An IRA makes it a little more difficult to spend your nest egg before retirement. If you take a withdrawal before age 59 1/2, there's typically a 10% early withdrawal penalty, and you will have to pay income tax on the distribution. A $1,000 early withdrawal could result in $340 in taxes and penalties for someone paying a 24% tax rate.

However, there are a variety of exceptions to the early withdrawal penalty that include many serious needs for the money such as large medical bills, health insurance after a layoff, college costs, the birth of a child and a first home purchase.

You can also budget for retirement savings with an IRA. “For those who find themselves making last-minute contributions regularly, setting up automated contributions can be a wise strategy,” said Khwan Hathai, certified financial planner at Epiphany Financial Therapy in Denver. “This method spreads out your contributions across the year, easing cash flow management and avoiding the rush to contribute a lump sum at the last minute.”

Qualify for the Saver's Credit

If you save in an IRA and you have a 2023 adjusted gross income of less than $36,500 as an individual, $54,750 as a head of household or $73,000 as part of a married couple, you might be eligible for the saver's credit. The saver's credit is worth between 10% and 50% of your IRA contribution of up to $2,000 for an individual and $4,000 for a couple, with bigger credits going to savers with lower incomes. The saver's credit can be claimed in addition to the tax deduction for contributing to a retirement account.