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Taxpayer Eligibility for IRAs

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The tax code limits the extent to which individuals may take advantage of the tax benefits associated with traditional and Roth IRAs. The only eligibility criteria for contributing to a Roth IRA are income and filing status. In contrast, eligibility for deducting contributions to a traditional IRA depends on those factors as well as on whether the taxpayer and the taxpayer's spouse participate in an employer-provided pension. Taxpayers are subject to an assortment of phaseout ranges based on those criteria. For example, in 2007 the traditional IRA phaseout range for a married taxpayer begins at $83,000 if the married taxpayer participates in an employer pension, and $156,000 if she does not but her spouse does. No income limits apply for eligible contributions to a traditional IRA if neither spouse participates in an employer pension, while the eligibility phaseout range for contributions to a Roth IRA begins at $156,000.

Single taxpayers and heads of household face a different set of eligibility rules. Like joint filers, those without access to an employer pension have no income limit on the deductibility of contributions to a traditional IRA. In contrast, those with access to a pension face declining limits on deductible IRAs when their income exceeds $52,000 and on Roth IRAs when their income exceeds $99,000. Married taxpayers filing separately face much stricter eligibility criteria than other filing types. Like other taxpayers, they may deduct contributions to IRAs if neither spouse participates in an employer pension. However, their ability to contribute to either traditional or Roth IRAs phases out between zero and $10,000 of income if either spouse has a pension.

Those disparate sets of eligibility criteria mean that some taxpayers may contribute to a Roth IRA but may not deduct contributions to a traditional IRA; other taxpayers face the opposite situation. Of course, some taxpayers may participate in both types of IRA accounts, while others qualify for neither. Typically, a taxpayer who may make deductible contributions to a traditional IRA, but may not contribute to a Roth IRA, lacks access to an employer pension but has too much income to participate in a Roth IRA. Conversely, a taxpayer who may contribute to a Roth IRA but not to a traditional account is likely to have access to an employer pension but to have income below the Roth IRA limit. In 2007 about 82 percent of all taxpayers were eligible for both types of IRAs, 10 percent for a Roth IRA only, 3 percent for a traditional IRA only, and 5 percent for neither.

Joint filers are less likely to be eligible to participate in both types of IRAs relative to single taxpayers, but are more likely to be only eligible to contribute to a Roth IRA. About 75 percent of married filers may participate in both types of IRAs, compared with 90 percent of single filers. The difference likely results from the higher incomes of married taxpayers combined with the increased likelihood that at least one spouse has access to a pension. Joint filers are more than twice as likely as single filers to be unable to qualify for either a traditional or Roth IRA: 5 percent of married taxpayers filing jointly face that situation, compared with about 2 percent of single filers.