Using a Tax Refund to Fund an IRA in 5 Easy Steps

What does the basic process entail? An income tax refund can be directly deposited to an IRA up to the annual contribution limit. The contribution limit was $6,000 ($7,000 for individuals age 50 or older) for 2022 and $6,500/$7,500 in 2023. It can also be split among multiple accounts.

1. **It is tax time!** Prepare your tax return for the year.
2. **Determine the refund amount.** Once you know how big your refund will be, decide how much, if any, you would like to contribute to your IRA or Roth IRA up to the maximum annual contribution allowed.
3. **One, two, three.** A refund going to only one account can be done directly on IRS Form 1040. Prepare IRS Form 8888 to direct the refund to up to three accounts.
4. **Watch out!** If you use Form 8888, pay attention to the five cautions provided by the IRS on the instructions to ensure that you do not fall into any of those traps. The form can be found on the IRS' website (www.irs.gov).
5. **Follow-up, follow-up, follow-up.** If the IRA deposit is meant to be for the prior year, make sure the institution will code it that way, and that it is received in time. If the refund amount is adjusted for math errors or tax adjustments, check which accounts on the form are affected. You may need to do an amended return if the IRA deposit is adjusted. If your refund is offset (e.g., because you owe past-due taxes), also check which accounts are affected. Again, you may need to do an amended return. If the funds go into the wrong account, deal with the institution to get the funds credited to the correct account.

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