

# “COMPENSATION” FOR IRA ELIGIBILITY

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Here we go again...barreling headlong into another tax season. This year will be like no other. With all the crazy that was 2020, many tax filers will discover some new and interesting items on their tax returns. For example – did you take a Coronavirus-related distribution (CRD) last year? That will require some additional reporting (Form 8915-E). Did you take your required minimum distribution in 2020, but then repay it after the CARES Act RMD waiver? That will generate a form you may not be familiar with (Form 5498).

Sadly, millions of Americans also received unemployment benefits in 2020, many for the very first time. That, too, will create some new tax questions. One popular inquiry: “Do unemployment benefits count as compensation for IRA eligibility?” They do not. If unemployment was a person’s only income last year, they are not eligible to make a 2020 IRA or Roth IRA contribution.

Below is a general list of what typically does and does not count as “compensation” for IRA contribution eligibility. Hopefully, this will answer a few questions during what is anticipated to be an unusual and complicated tax filing season.

## **What DOES Count as Compensation**

- Salaries and wages (of course), tips, and bonuses
- Earned income from self-employment also counts
- Royalties
- Commissions
- Taxable alimony (Be careful here. The alimony and tax rules recently changed.)

- Taxable non-tuition fellowship and stipend payments, and difficulty-of-care payments for foster care workers (These are new under the SECURE Act.)

### **What Does NOT Count as Compensation**

- Unemployment compensation (as already mentioned)
- Interest income does not count, nor do dividends on stocks, bonds or other investments
- Capital gains from the sale of property does not count, nor does rental income
- Deferred compensation
- Pension, profit sharing, or IRA distributions do not count
- Life insurance proceeds
- Disability insurance income
- Child support
- And a popular one...Social Security does not count as compensation.

Of course, every situation is different, and you may have a type of income not included in the list above. If you have questions on any 2020 tax-related issues (including your IRA eligibility status), the best bet is to consult your financial advisor and/or CPA for guidance.

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