

## **Part IV. Items of General Interest**

### **Payroll Deduction IRAs**

#### **Announcement 99-2**

This announcement relates to direct deposit to individual retirement accounts or annuities ("IRAs") by means of payroll deduction. As discussed in this announcement, employers may permit employees to contribute to traditional or Roth IRAs by direct deposit through payroll deduction. In addition, employees making direct deposits of deductible contributions to traditional IRAs may be able to adjust their Federal income tax withholding to receive a more immediate tax benefit from their contributions.

Many employers permit their employees to directly deposit all or a portion of their paychecks into checking or savings accounts maintained by financial institutions. Employers may also assist their employees in saving for retirement by means of direct deposit through payroll deduction to IRAs.

In the Conference Report to the Taxpayer Relief Act of 1997, Pub. L. 105-34, Congress indicated that "employers that choose not to sponsor a retirement plan should be encouraged to set up a payroll deduction system to help employees save for retirement by making payroll deduction contributions to their IRAs." Congress encouraged the Secretary of the Treasury to "continue his efforts to publicize the availability of these payroll deduction IRAs." H.R. Rep. No. 220, 105th Cong., 1st Sess. 775 (1997).

As part of this continuing effort, employers that feel they are not currently in a position to sponsor a retirement plan are reminded that the introduction of Roth IRAs in 1998 presents an additional opportunity to facilitate employee retirement savings. As with traditional IRAs, amounts accumulated under Roth IRAs are exempt from Federal income tax, and contributions to Roth IRAs are subject to specific limitations. Unlike traditional IRAs, Roth IRA contributions cannot be deducted from gross income, but "qualified distributions" from Roth IRAs are excludable from gross income. For further information on Roth IRAs, see § 408A of the Internal Revenue Code and the proposed Income Tax Regulations thereunder.

In addition, employees and employers are reminded that some employees who make deductible contributions to traditional IRAs (whether through payroll deduction or otherwise) may be able to

adjust their Federal income tax withholding on account of these contributions. By adjusting their withholding, employees may not have to wait until they file their tax return to get the benefit of the tax deduction for their contributions. Employees can review the instructions on IRS Form W-4 (Employee's Withholding Allowance Certificate) and the worksheet on the back of that form to see if they are eligible for this withholding adjustment. Further information may be found in Publication 919 (Is My Withholding Correct for 1999?).

This announcement does not address the application of Title I of the Employee Retirement Income Security Act of 1974 to a system for direct deposit to IRAs by means of payroll deduction.