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Can I reinvest my RMD?

Q. Do you have to receive wage income in order to contribute to a traditional or Roth IRA? I'm over 70 1/2 and want to reinvest the Required Minimum Distribution money I have to withdraw annually from my IRAs.
-- Reinvestor

A. We're glad you're asking rather than make a move that could cause you some headaches.

In order to contribute to any type of IRA, you must receive some form of income that is considered taxable, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.**

For most, she said, this would be wages or a salary that is reported on a W-2.

But other income including commissions, self-employment income and taxable alimony all qualify under the income definition. Non-taxable combat pay is the one form of compensation that does not have to be taxable but would enable the recipient to contribute, Mott said.

The other important rule to remember is that the amount that can be contributed to the IRA cannot exceed what was earned, Mott said. For 2017 the maximum contribution that can be made to an IRA is $5,500. Those over age 50 may make a catch-up contribution of $1,000.

"These contributions can be put in a traditional IRA, a Roth or a combination of both," Mott said. "Before making any investment it is important to understand the income limitations that may reduce the amount which can be put into a Roth or which may impact the deductibility of a Traditional IRA contribution."

Mott said if you don't have the income you need to qualify for an IRA contribution, you will need to find another way to invest your Required Minimum Distribution, or RMD.

She said depending on your risk tolerance and long term goals for the money, you may consider opening an investment account which would enable you to purchase mutual funds or exchange traded funds (ETFs).

"You'd want to create a well-rounded and diversified portfolio by investing in funds that include both U.S. and international stocks and bonds," she said. "Depending on your tax picture, using municipal or tax-free bond funds may be an important choice."

For a more conservative investment, a ladder of CDs would be another option, she said.

"This would involve buying CDs of varying lengths and continuously rolling the money over when it comes due," she said. "This enables you to take advantage of changing interest rates and doesn't lock you into just one rate for an extended period of time."

Regardless of which option you choose, it's important to understand the taxes that may result from these investments.

Dividends, interest and capital gains are all reportable forms of income and you should discuss this with your tax advisor before making any choices, Mott said.

Email your questions to ask@njmoneyhelp.com