The Ultimate Guide to Retirement: All About **IRA's**

From: Wolters Kluwer Financial Services, Inc.

Roth vs. Traditional IRA's

The traditional IRA allows you to defer taxes on the earnings on your contributions until they are withdrawn. Also, depending on eligibility, contributions are tax deductible in the tax year for which you make them.

The Roth IRA gives retirement savers a different incentive - nontaxable distributions. Regular Roth IRA contributions are not tax deductible, so owners will not pay federal taxes on distributions of these contributions. Under certain conditions, the earnings on Roth IRA contributions are also nontaxable when distributed. Therefore, if you expect to be in a higher tax bracket when you take distributions in retirement, for this and other reasons, you may benefit more from a Roth IRA than a traditional IRA.

Can I make a regular contribution to either account?

With a traditional IRA, you are eligible to make regular contributions if you are younger than age 70 1/2 for the entire tax year and you or your spouse have compensation.

With a Roth IRA, you are eligible to make regular contributions if you or your spouse have compensation and your modified adjusted gross income (MAGI) for any tax year does not exceed certain prescribed limits. These limits are subject to annual cost-of-living adjustments (COLAs), if any.

You may establish a traditional or Roth IRA even if you already participate in or are receiving a contribution in a retirement plan sponsored by your employer.

How much can I contribute each year?

You may contribute any amount up to 100% of your compensation or the amount set forth in the contribution limit chart, whichever is less, aggregated between a traditional and Roth IRA. Additionally, if you have attained age 50 or older by the end of your tax year, you are eligible to make catch-up contributions. The amount of any tax refund contributed directly to your IRA is subject to the annual contribution limit.

Do I pay taxes when distributed?

Traditional IRA - Yes, on the distribution of any tax-deductible contributions and on all earnings. Distributions that include these amounts are taxed as income in the year they are withdrawn.

Roth IRA - Since regular Roth IRA contributions are nondeductible, distributions of these amounts are not taxable. Another nice Roth IRA feature is that the rules consider all contributions to be distributed before any earnings. This gives you easier tax-free access to the assets. Earnings, however, may be subject to tax unless they are removed as a qualified distribution.

When must I withdraw assets?

Traditional IRA - When you reach 70 1/2, you are required to begin taking minimum required distributions and must take minimum distributions each subsequent year or risk additional penalty taxes.

Roth IRA - You are not required to take distributions from your Roth IRA.

Where can I learn more?

As you can imagine, there are more details to IRA's than can fit in this newsletter. For the most current information, as well as information on limits and much more, visit **irs.gov/forms-pubs/about-publication-590-a** and click on the Publication 590-A link under "Current Products."