Roth IRA

An Alternative to the Traditional IRA

What is a Roth IRA?

A Roth IRA is an individual retirement account that allows you to exclude earnings from income tax forever. While contributions are not tax deductible, the earnings will never have to be included in income if the rules are followed. Since there are no minimum distribution requirements for this kind of account, savings can be distributed as needed after the account has been held for five years and age $59^{1/2}$ is reached, or passed on to beneficiaries tax-free at death.

Who Can Make Contributions?

If you have earned income and your modified adjusted gross income (MAGI) is less than certain limits, you are eligible to make contributions to a Roth IRA. [For most taxpayers, MAGI is the same as adjusted gross income (AGI).] The contribution limits relative to MAGI are as follows:

MAGI	Filing Status	Contribution
$101,000 or less	S, HH, QW	Full
$101,000-$116,000	S, HH, QW	Partial
More than $114,000	S, HH, QW	None
$159,000 or less	MFJ	Full
$159,000-$169,000	MFJ	Partial
More than $169,000	MFJ	None
Zero-$10,000	MFS	Partial
More than $10,000	MFS	None

There are no restrictions on making contributions to a Roth IRA after age $70^{1/2}$, providing the taxpayer has earned income. Also, there are no restrictions on making contributions if a taxpayer is a participant in a retirement plan. The rules for spousal contributions are the same as for the traditional IRA.

How Much Can Be Contributed to a Roth IRA?

The rules are the same as for a traditional IRA except that contributions to a Roth and/or a traditional IRA in total cannot exceed $5,000 for the year per taxpayer (ask preparer about catch-up provisions).

What Contributions Are Deductible?

No contributions are deductible, but earnings accumulate tax free in the account until distributed.

What is the time deadline for establishing plan and making contributions

Like the traditional IRA, the Roth must be established and funded by the tax return filing deadline (not including extensions) for the year in which the plan is to become effective.

When Can Distributions Be Taken?

Distributions can be taken at any time but are taxed differently, depending on when they are taken. Unlike a traditional IRA, minimum distributions are not required from a Roth IRA at age $70^{1/2}$ or any other age. Amounts in the account may remain or be distributed as desired.

How Are Proceeds Taxed?

If distributions are to be tax free, earnings must be left in the account for five years; beginning with the year the first deposit is made. After this five-year period, distributions of earnings made after reaching age $59^{1/2}$, upon death, after becoming disabled, or for first-time homebuyers are tax and penalty free. If you die and your souse is the beneficiary, the spouse will be considered the account owner. All other beneficiaries will have to take distributions over their life expectancies or distribute the entire account value by the fifth year that includes the anniversary of your death.

If distributions are taken for any of the following reasons, the earnings will be taxed but no penalty will apply if distributions are taken before age $59^{1/2}$.

1. Substantially equal periodic payments based on life expectancy
2. Death of disability of the IRA owner
3. Medical expenses that exceed 7.5% of taxpayer's adjusted gross income
4. Health insurance premiums for eligible unemployed individuals
5. Education expenses
6. Up to $10,000 for a first time homebuyer
7. Payment due to IRS levy
8. Qualified distributions made to certain reservists

Distributions of earnings taken for any reason other than those indicated above will be taxed and the 10% penalty for early withdrawal will apply.

Principal amounts are always returned tax-free to the taxpayer, regardless of when the distributions are made. These principal amounts are always considered to be the first money distributed from a Roth so nothing will be taxed until all the taxpayer's principal has been distributed.

Note: The rules for rollover contributions are beyond the scope of this brochure. Contact your tax advisor for more information.

Not every item in our library will be applicable to your situation. If you need further advice, please feel free to give us a call any time at (608) 756-5354. Summit Accounting Group Inc. of Janesville, Wisconsin

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