ROTH AND TRADITIONAL IRA TAXATION

Office of the Staff Judge Advocate
Eielson AFB, Alaska

354 FW/JA

Tax Law
Pamphlet Series

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TRADITIONAL IRA

What is it?

A traditional IRA is any IRA that is not a Roth IRA or a Simple IRA. The following are two advantages of a traditional IRA:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances.
- Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

Who can contribute?

You can open and make contributions to a traditional IRA if you (or, if you file a joint return, your spouse) received taxable compensation during the year, and you were not age 70 ½ or older by the end of the year.

If both you and your spouse have compensation and are under age 70 ½, each of you can open an IRA. You cannot both participate in the same IRA. If you file a joint return, only one of you needs to have compensation.

Are my contributions deductible?

You can deduct your contributions if you qualify.

How much can I contribute?

The most you can contribute to ALL of your traditional IRAs is the smaller of:

- $5,550 (for 2015 – 2017), or $6,500 if you're age 50 or older by the end of the year; or
- Your taxable compensation for the year.

What is the deadline to make contributions?

Your tax return filing deadline (not including extensions). For example, you can make 2016 IRA contributions until 18 April 2017.

Do I have to take required minimum distributions?

You must start taking distributions by 1April following the year in which you turn 70 ½ and by 31 December of later years.

Are my withdrawals and distributions taxable?

Any deductible contributions and earnings you withdraw or that are distributed from your traditional IRA are taxable. Also, if you have under age 59 ½ you may have to pay an additional 10% tax for early withdrawals unless you qualify for an exception.

The decision to convert from a conventional IRA to the Roth IRA is one that depends on your particular circumstances. The Roth IRA follows most of the rules governing conventional IRAs and other deductible pension plans; however, it has a twist in that you pay taxes up front and your future appreciation is exempt from federal income tax.

ROTH IRA

What is it?

A Roth IRA is an individual retirement plan that is subject to the usual restrictions on withdrawing money before retirement. It can either be an account or an annuity. To be a Roth IRA, the account or annuity must be designated as a Roth IRA when it is opened.

Unlike a traditional IRA, you **cannot** deduct contributions to a Roth IRA. But, if you satisfy the requirements, qualified distributions, are tax free. Contributions can be made to your Roth IRA after you reach age 70 ½ and you can leave amounts in your Roth IRA as long as you live.

Who can contribute?

You can open a Roth IRA at any time. However, the time for making contributions for any year is limited.

You can open and make contributions to a Roth IRA if you (or, if you file a joint return, your spouse) received taxable income during the year and your modified adjusted gross income is below certain amounts.

Are my contributions deductible?

Your contributions aren't deductible.

How much can I contribute?

The most you can contribute to ALL of your ROTH IRAs is the smaller of:

- $5,550 (for 2015 – 2017), or $6,500 if you're age 50 or older by the end of the year; or
- Your taxable compensation for the year.

What is the deadline to make contributions?

Your tax return filing deadline (not including extensions). For example, you can make 2016 IRA contributions until 18 April 2017.

Do I have to take required minimum distributions?

Not required if you are the original owner.

Are my withdrawals and distributions taxable?

None if it's a qualified distribution (or a withdrawal that is a qualified distribution). Otherwise, part of the distribution or withdrawal may be taxable. If you are under 59 1/2, you may also have to pay an additional 10% tax for early withdrawal unless you qualify for an exception.

CONVERTING FROM AN TRADITIONAL IRA TO A ROTH IRA

You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply. However, a part of all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

This pamphlet provides basic information about traditional and Roth IRAs. It is not intended to take the place of legal advice from a Judge Advocate. There may be important exceptions in some states to the information presented here. Please contact the 354th Fighter Wing Legal Office for questions and further information.

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