Retirement and Taxes – Understanding IRAs

By Annie Schurman

IRAs provide tax incentives for you to make investments that can provide financial security for your retirement.

Here's some basic language to help you understand IRAs:

- **Contribution**. The money that someone puts into their IRA. The annual limit for 2021 IRA contributions is $6,000 per person, or if you are age 50 or older $7,000 per person. You must have earned income to contribute to an IRA.

- **Distribution**. The amount that you withdraw from your IRA.

- **Withdraws**. You could face a 10% penalty plus taxes if you withdraw money before age 59 ½, unless you qualify for an exemption.

- **Required distribution**. There are requirements for withdrawing from an IRA:
  - Per the 2019 SECURE Act, if a person's 70th birthday is on or after July 1, 2019, they do not have to take withdrawals until age 72 (previously age 70 ½.)
  - Special distribution rules apply to inherited IRAs.

- **Traditional IRA**:
  - An IRA where contributions are deductible on your tax return. The amounts in a traditional IRA are not taxed until they are withdrawn.

- **Roth IRA:**
  - You cannot deduct contributions to a Roth IRA on your tax return.
  - Qualified distributions are tax-free.
    - Qualified distributions are those:
      - made after you have held the Roth for 5 years
      - made on or after age 59 ½
        - You can withdraw contributions anytime tax-free and penalty-free, but earnings on your Roth will be subject to a 10% penalty if withdrawn before age 59 1/2
      - made because you are disabled
      - made to a beneficiary
      - made to buy or build a first home ($10,000 limit, 59 ½ age limit penalty doesn't apply)
  - Roth IRAs do not require withdrawals until after the death of the owner.

- **Savings Incentive Match Plan for Employees - SIMPLE IRA.** Employees and employers may contribute to traditional IRAs set up for employees. It may work well as a start-up retirement savings plan for small employers.

- **Simplified Employee Pension – SEP IRA**. An employer can make contributions toward their own retirement and their employees' retirement. The employee owns and controls a SEP.

- **Rollover IRA**. This is when the IRA owner receives a payment from their retirement plan and deposits into a different IRA within 60 days.

Please contact our office with any questions you have on retirement plans and tax savings. We are here to help!

Thanks,

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