

# 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 The amounts in a traditional IRA are not taxed until they are withdrawn.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withdraw contributions anytime tax-free and penalty-free, but earnings on your Roth will be subject to a 10% penalty if withdrawn before age 59 1/2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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