

# Frequently asked questions about the Roth IRA

The Roth IRA, created by the Taxpayer Relief Act of 1997, has many investors asking about its potential tax and retirement planning benefits. Here are some answers to the most frequently asked questions.

What is the Roth IRA? Roth IRA contributions are made with after-tax dollars and grow tax-deferred. Distributions from a Roth are generally tax-free at retirement. The Roth also gives investors flexibility to use their retirement assets to help fund other goals, such as the purchase of a first home and higher education expenses.

Who is eligible to open a Roth IRA? Eligibility depends solely upon your earned-income level. In 2005, if your adjusted gross income (AGI) is below \$95,000 (single) or \$150,000 (joint), you might make a full annual contribution to a Roth IRA of up to \$4,000 or 100 percent of income, whichever is less. Partial contributions are permitted for singles whose AGI is between \$95,000 and \$110,000 and married couples whose AGI is between \$150,000 and \$160,000. An additional \$500 "catch-up" contribution is permitted for individuals age 50 and older.

Are contributions to a Roth IRA tax deductible? No. All contributions to a Roth IRA are not tax deductible.

How are distributions from a Roth IRA taxed? One of the great benefits of a Roth IRA is that you are able to withdraw your contributions at any time without tax or penalty. Withdrawals of accumulated earnings are tax-free and penalty-free if held in the Roth IRA for five years or more and any one of the following applies: You are older than 59½; the funds are used for the purchase of a first home (\$10,000 lifetime limit); you are disabled; or the funds are being distributed to the beneficiaries upon an IRA holder's death.

Ordinary income taxes are due when one of the above situations occurs, but no 10 percent premature distribution tax is assessed if you're under the age of 59½ and funds are withdrawn for one of the following reasons: Funds are used for qualified higher education expenses; for medical expenses that exceed 7.5 percent of AGI; or to purchase health insurance after receiving unemployment compensation for more than 12 weeks.

Ordinary income taxes and a 10 percent penalty are due when accumulated earnings are withdrawn for any other reason.

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