ASSET STRATEGY

Helping you Create, Manage, Protect & Distribute Wealth®

2025

ROTH IRA

PART 1 OF 4

What is a Roth IRA?

One way to save money for retirement is through an individual retirement account (IRA). You can make after-tax contributions to a unique kind of tax-advantaged individual retirement account called a Roth IRA. Having a Roth IRA has several advantages, the main one being tax-free growth on contributions and profits, which can be withdrawn tax-free at age 59½, provided the account has been open for at least five years. To put it another way, contributions to your Roth IRA are subject to taxes; however, withdrawals made in the future are tax-free.

How Does a Roth IRA Work?

Money that has already been taxed can be deposited into a Roth IRA. You can let it grow, and you won't have to pay any more taxes when you want to take it out for retirement. A Roth IRA can be funded in a variety of ways, including:

Regular Contributions	Spousal IRA Contributions	Transfers	Rollover Contributions	Conversions

All contributions to a regular Roth IRA, including checks and money orders, must be made in cash. They cannot be made in the form of properties or security. The annual contribution to any kind of IRA is limited by the Internal Revenue Service (IRS), which adjusts the amounts periodically.[1]

There are multiple kinds of IRAs, but you should know the contribution limits are the same for all. It is not possible for you to contribute more than the maximum amount to any of your IRAs.[2]

Like other qualified retirement plan accounts, the Roth IRA allows investors to grow their money without paying taxes on it. A Roth IRA, however, has fewer restrictions than other types of accounts. The Roth IRA can be kept open for as long as the account holder wants.

Allowable Investments in a Roth IRA:

A Roth IRA offers a range of investment options after contributions are made, such as mutual funds, stocks, bonds, certificates of deposit (CDs), exchange-traded funds (ETFs), and money market funds. However, you cannot contribute cryptocurrency directly to your Roth IRA. If you want the broadest range of investment options, a Roth self-directed IRAs (SDIRAs) allows investors to manage their investments, giving them the most investment options. These enable many investments, including digital asset direct investment.[3]

[4] **The maximum annual contribution that an individual can make to a Roth IRA in 2025 is $7,000.**

Those ages 50 and older can contribute up to $8,000.

You can hold assets that aren't typically part a retirement portfolio in addition to the standard investments (stocks, bonds, cash, money market funds, and mutual funds). Gold, partnerships, tax liens, investment real estate, and even franchise businesses are a few of these.

1. https://www.irs.gov/pub/irs-pdf/p590a.pdf as of 1.30.2025
2. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits as of 8.20.2024
3. https://www.investopedia.com/terms/r/rothira.asp as of 11.22.2024
4. https://www.irs.gov/pub/foia/ig/spder/ts-21-1124-1129.pdf as of 11.13.2024

How Do You Open a Roth IRA?

To open a Roth IRA, you need to choose a financial institution that has been authorized by the IRS to provide IRAs. A Roth IRA can be established at any point in time. However, it is important to note that contributions for a tax year must be made by the tax-filing deadline of the IRA owner, which typically falls on April 15 of the subsequent year.

When you set up an IRA, there are two essential documents that the IRA owner needs to be given.

1. The IRA disclosure statement [5]
2. The IRA adoption agreement and plan document [6]

These documents outline the rules and regulations that govern the operation of a Roth IRA. They also establish an agreement between the owner of the IRA and the custodian/trustee of the IRA.

What Funds Can You Contribute?

When it comes to Roth IRAs, the IRS has some guidelines in place regarding both the amount and type of money you can deposit. For individuals working for an employer, the only money that may be contributed to a Roth IRA is earned income. (Wages, salaries, tips, and other taxable employee pay).

Self-employed individuals and partners or members of pass-through businesses receive compensation based on their net business earnings, minus any deductions for retirement plan contributions and 50% of self-employment taxes.

Money from a divorce—alimony, child support, or a settlement—can also be contributed if it is connected to taxable alimony received from a divorce settlement completed before December 31, 2018.

What Funds Are Not Eligible?

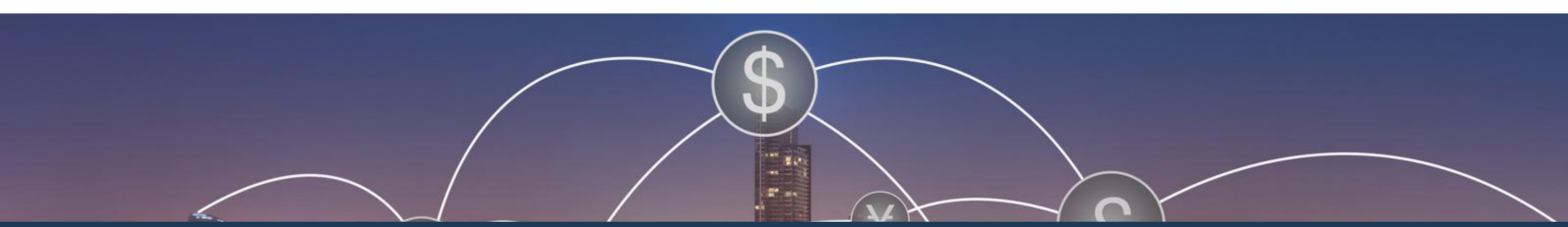
- Stock dividends and capital gains
- Rental income or other profits from property maintenance
- Pension or annuity income
- Interest income
- Passive revenue from a partnership without providing significant services

Who is Eligible for a Roth IRA?

Anyone with earned income may contribute to a Roth IRA as long as they fulfill specific filing status and modified adjusted gross income (MAGI) criteria.

Those whose yearly income exceeds a specific level, which the IRS modifies on a regular basis, are unable to contribute.

5. https://www.investopedia.com/terms/d/disclosurestatement.asp as of 8.11.2024
6. https://www.investopedia.com/terms/i/iradocument.asp as of 8.11.2024



Do You Qualify for a Roth IRA?

The system operates as follows: A person earning less than the ranges for their category can contribute up to 100% of their income or the contribution limit, whichever is less. Employees in the phaseout range are required to subtract their income from the maximum level and subsequently divide it by the phaseout range. This calculation will determine the percentage that they are permitted to contribute.

Category:	Income Range for 2025 Contribution:
Married and filing a joint tax return	Full: Less than $236,000 Partial: From $236,000 to less than $246,000
Married, filing a separate tax return, lived with spouse at any time during the year	Full: $0 Partial: Less than $10,000
Single, head of household, or married filing separately without living with spouse at any time during the year	Full: Less than $150,000 Partial: From $150,000 to less than $165,000

What is a Spousal Roth IRA?

The spousal Roth IRA is one way for a couple to increase their retirement contributions. A person can contribute to a Roth IRA on behalf of their married partner who has little or no income. Contributions to a spouse's Roth IRA follow the same regulations and limits as regular Roth IRA contributions. Since Roth IRAs cannot be joint accounts, the spousal Roth IRA is kept separate from the Roth IRA of the contributing spouse. [7]

To qualify for a spousal Roth IRA contribution, the following criteria must be met:

- The couple must be married and file a joint tax return.
- The spouse making the contribution must have earned income.
- The total contributions to both IRAs cannot exceed the couple's combined taxable income reported on their joint tax return.
- Contributions to each Roth IRA cannot exceed the annual contribution limit (**$7,000** for those under 50, **$8,000 for those 50 and older in 2025**), but having two accounts allows the couple to double their retirement savings potential. [8]

7. https://www.investopedia.com/retirement/making-spousal-ira-contributions/ as of 12.12.2023
8. https://blog.turbotax.intuit.com/income-and-investments/401k-ira-stocks/can-i-make-spousal-ira-contributions-for-retirement-46326/ as of 2.21.2025

Roth IRA Withdrawals - Qualified Distributions:

You can withdraw money from your Roth IRA at any time without paying taxes or penalties. If you withdraw only the amount you contributed, the distribution is not taxed as income and is not subject to penalties, regardless of your age or how long the money has been in the account.

To qualify as a tax-free distribution of earnings, the withdrawal must occur at least five years after the first contribution to the Roth IRA and meet at least one of the following conditions:

- The Roth IRA owner is at least 59½ years old when the withdrawal occurs.
- The funds are used for the purchase, construction, or rebuilding of a first home for the account owner or a qualified family member (including a spouse, child, grandchild, parent, or other eligible relatives). The lifetime limit for this exemption remains $10,000.
- The account owner becomes disabled.
- The distribution is made after the Roth IRA owner's death, with assets going to designated beneficiaries.

The Roth IRA Five-Year Rule:

Withdrawal of profits may incur taxes and/or a 10% penalty, based upon your age and compliance with the five-year rule. Here is a concise summary.

If You Meet the Five-Year Rule:	If You DO NOT Meet the Five-Year Rule:
Under age 59½: Earnings are subject to taxes and penalties. You may be able to avoid taxes and penalties if you use the money for a first-time home purchase (a $10,000 lifetime limit applies), if you have a permanent disability, or if you pass away and your beneficiary takes the distribution.	**Under age 59½:** Earnings are subject to taxes and penalties. You may be able to avoid the 10% penalty (but not the taxes) if you use the money for a first-time home purchase (a $10,000 lifetime limit applies), qualified education expenses, unreimbursed medical expenses, disability, or if you pass away and your beneficiary takes the distribution.
Ages 59½ and older: No taxes or penalties.	**Ages 59½ and older**: Earnings are subject to taxes but not penalties.

Roth IRA Withdrawals: Non-Qualified Distributions:

If an earnings withdrawal does not meet the criteria for a qualified distribution, it is considered a non-qualified distribution and may be subject to income tax and a 10% early distribution penalty. However, exceptions to the 10% penalty (though not to income tax) may apply if the funds are used for:

For unreimbursed medical expenses:	Distributions used to pay unreimbursed medical expenses that exceed 7.5% of the individual's adjusted gross income (AGI).
To pay medical insurance:	Distributions used to pay medical insurance premiums if the individual has lost their job and received unemployment compensation for 12 consecutive weeks.
For qualified higher education expenses:	Distributions used to pay for qualified higher education expenses for the Roth IRA owner or their dependents. These expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution.
For childbirth or adoption expenses:	Distributions of up to $5,000 used to pay for expenses related to the birth or adoption of a child, incurred within one year from the date of birth or adoption.

It should be noted that the contribution is reversed if you only withdraw the portion of your contributions made during the current tax year, including any earnings on those contributions.

Contact us today for a complimentary review of your finances to take the next step in executing a successful Roth IRA.

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