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RRA NEWSLETTER

Roth IRAs: A Tax-Free Guarantee for a CPA Retiree

While very similar to a traditional Roth, a Roth IRA offers unique advantages when it comes to taxes and even inheritance.

Let's Get Down to the Basics:

A Roth individual retirement account is a brilliant way to save for retirement. Much like a traditional IRA, a Roth IRA allows you to invest and for it to grow tax-free. One great advantage this type of account has is that it also lets you take tax-free withdrawals of your contributions at any age. Your earnings may have the same benefit under certain circumstances.

For your earning to be withdrawn tax-free you must be:

- 59 ½ years old
- Disabled
- Using the funds as first-time

Naturally, like any tax-advantaged retirement account, the IRS has stipulations and rules that cover contribution limits, income limits, and withdrawals.

Roth IRA Eligibility

The first requirement for contributing to a Roth IRA is having earned income. This could be from the income earned from working for someone else (commissions, tips, bonuses count). Secondly, this earned income could be from a self-operated business or other means of earned income such as tax alimony or even combat pay.

Earned income that does not count:

- Rental properties
- Nontaxable alimony
- Child support
- SS benefits
- Unemployment benefits

On a plus side, there is no age limit for making Roth IRA contributions. From a teen working a summer job to someone even in their 80s can contribute. *Note: someone under 18 would need to set up a custodial account.*

If you are contributing towards another qualified retirement plan you are still eligible to contribute towards a Roth IRA. So, if you earn money and meet the limitations, you can contribute towards your own Roth IRA and your employer-sponsored 401(k) plan.

Contribution & Income Limits

Income

Your annual income determines how much you can contribute to your Roth IRA. Limits are based on your modified adjusted gross income (MAGI). This number is calculated by taking your adjusted gross income from your tax return and adding back tax deductions.

The contribution limit is based on your MAGI and martial status. Luckily, each year the IRS updates the Roth IRA income limits considering the economic situations like inflation. The next year's limits are announced around the beginning of the fourth quarter of 2022.

For 2022 you will be able to make full contributions to your Roth IRA of $6000 ($7000 if you are 50+) if you make less than $129,00 and partial contributions if you make between $129,000 – 144,00 MAGI. If you make over $144,000 you are not able to make contributions. For married couples the partial contribution range is $204,000 – 214,000.

Quick note: Married but filing separately and head of household filers can use the limits of single people depending on living status for the previous year (with spouse or not).

Contribution

The beauty of Roth IRAs is that anyone at any age can contribute if guidelines are followed. Hence why income and even contribution limits exist. Your annual contribution cannot exceed your earned income.

Many couples consider adding the higher-earning spouse's name to a Roth to be able to contribute more, but given the 'individual' of IRA, the IRA prohibits joint Roth IRAs. Both persons should establish their own Roth IRA, and then the high earner can add funds to both. This works if one is working, and another is unable to contribute. Couples must file a joint tax return for the spousal IRA to work.

Timing Matters

Many CPAs will have both a traditional IRA and a Roth IRA. Collectively, the contribution amount applies to both. If a single CPA under 50 contributes $2000 to one IRA they can only put $4000 in the other for that tax year. Fortunately, contribution deadlines match income tax deadlines. So, your contributions for 2022 can be made until Tax Day of April 2023. Note: an extension does not apply to your contributions.

Fun tip: If you are an early filer, and you do receive a tax refund, you can apply a portion or all of it to your Roth contribution.

Roth conversions from a taxable retirement account such as your 401(k) or your traditional IRA has zero impact on your contribution limits. Though, making such a conversion adds to your MAGI and may result in limiting your contribution limit or a complete phaseout. Additionally, rollovers from one Roth IRA to another are not considered for annual contributions or impact your MAGI.

Incentives & Rules

Tax Break

Building for your future is the best feature of a Roth IRA, and since they are made up of after-tax dollars, you are not able to receive tax deductions on your contributions to them. Hence why you do not pay taxes on your withdrawals.

However, you or your clients may be eligible for a tax credit of 10-50% on contributions towards Roth IRAs. Called the Saver's Credit, low- to moderate-income taxpayers may qualify. The credit is $1000 depending on filing status, AGI, and Roth IRA contributions.

Limits to qualify for the 2022 tax year:

• Married and filing jointly must have incomes below $68,000
• Head of household filers must be below $51,000
• Single taxpayers must have income below $34,000

Withdrawal Rules

Good news: There are no required minimum distributions with Roth IRAs like there are for traditional Roths. You can withdraw from your Roth IRA contributions any time, any age, for any reason without owing taxes or receiving penalties.

The bad news? Your Roth IRA earnings are a whole different thing. A restriction called the five-year rule limits withdrawals on earnings:

• Must have had the account for 5 years or more
• Need to be over 59 ½ years old

Once you meet these two qualifications, you can 'redeem' your earning tax and penalty free. If you do so before you meet both, you are subject to taxes and a 10% penalty.

Some exceptions even under the five-year rule apply! If you meet the five-year rule and are younger than 59 ½ you may be able to avoid the taxes and penalties if you use your money for permanent disability or are a first-time home buyer. If you do not meet the five-year rule and you are younger than 59 ½ you may be able to avoid taxes and penalties if you use the money for first-time home purchase, qualified education expenses, disability, or unreimbursed medical expenses. If you are over 59 ½ but have not had the account for five years yet, you will not pay penalties, but you are subject to pay taxes on the earnings.

Upcoming July Webinars

RetirementRiskAdvisors.com/events

7/1
The Volatility Shield: How to Make Your Retirement Income Last 15 Years Longer

7/6
Getting Safely Through Retirement: A New Paradigm in Retirement Planning

7/11
A Framework for Your Retirement Income Strategies

7/12
How to Protect Your Retirement Assets from the Next Crash

The Changing World of Retirement

7/13
Getting Safely Through Retirement: A New Paradigm in Retirement Planning

Tax-Free Income for Life: How to Eliminate Risk in Retirement

7/14
The Truth About Reverse Mortgages: Everything You Need to Know

7/15
Women, Money, and Power: Take Control of Your Financial Future

Choose the Right Life Insurance for Your Retirement

7/18
Getting Safely Through Retirement: A New Paradigm in Retirement Planning

7/21
Shopping for Long-Term Care Insurance & Your Nursing Home

7/22
Roth IRAs: A Great Option for Most Retirees

7/25
Take Control of your Retirement with a Self-Directed Plan

7/26
Evolving Retirement Law: The Challenges, The Changes & Your Choices

7/27
Getting Safely Through Retirement: A New Paradigm in Retirement Planning

7/28
The Changing World of Retirement

7/29
How to Retire in the 0% Tax Bracket

Your Retirement is at Risk

Longevity is increasing yearly.

Inflation has risen alarmingly.

Taxes are projected to double in the coming years.

We have the solution for CPAs so your retirement is safe.

FREE 2 CPE WEBINAR

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