



Individual Retirement Accounts

Roth IRAs

**Personal Financial Planning
regardless of age or assets.**



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Roth IRAs

Roth IRA Contribution Limits—2023

Lesser of: Taxable compensation for the year, or:

Under age 50.....	\$6,500
Age 50 or older.....	\$7,500

What is a Roth IRA?

A Roth IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An account must be designated as a Roth IRA when opened.

Roth IRA tax advantages and rules compared to a traditional IRA:

- Contributions are not deductible. Being covered by an employer retirement plan is irrelevant.
- If certain requirements are satisfied for qualified distributions, distributions are tax free.
- Can withdraw contributions any time for any reason without owing taxes or penalties.
- The required minimum distribution (RMD) rules do not apply. Distributions are not required until death of the participant.
- Contributions are not allowed when modified adjusted gross income (MAGI) is above certain limits.
- Neither a SEP IRA nor a SIMPLE IRA can be set up as a Roth IRA.

Who Can Contribute to a Roth IRA?

Generally, you can contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status, see *Roth IRA Phaseouts* chart, below.

Roth IRA Phaseouts—2023

Filing Status	MAGI	Contribution Limit
Single, Head of Household, or Married Filing Separately (lived apart from spouse all year)	Less than \$138,000.	Up to \$6,500 (\$7,500, age 50 and older).
	At least \$138,000, but less than \$153,000.	Contribution limit reduced.*
	\$153,000 or more.	Cannot contribute to Roth IRA.
Married Filing Jointly or Qualifying Surviving Spouse	Less than \$218,000.	Up to \$6,500 (\$7,500, age 50 and older).
	At least \$218,000, but less than \$228,000.	Contribution limit reduced.*
	\$228,000 or more.	Cannot contribute to Roth IRA.
Married Filing Separately (lived with spouse at any time during the year)	Zero.	Up to \$6,500 (\$7,500, age 50 and older).
	More than zero, but less than \$10,000.	Contribution limit reduced.*
	\$10,000 or more.	Cannot contribution to Roth IRA.

*To calculate reduced contribution limit:
 1) Subtract the lower limit of the phaseout range from MAGI.
 2) Divide result by \$10,000 (MFJ and MFS, lived with spouse) or \$15,000 (all others).
 3) Multiply result by maximum contribution amount.
 4) Subtract the result from the maximum contribution limit.

Example: Bob, age 35, Single, \$140,000 MAGI:
 1) \$140,000 – \$138,000 = \$2,000.
 2) \$2,000/\$15,000 = 0.133.
 3) 0.133 × \$6,500 = \$865.
 4) \$6,500 – \$865 = \$5,635 (Bob's maximum contribution limit).

Compensation. Compensation includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments.



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Contributions. Total contributions are combined with traditional IRA contributions to determine limits. For example, a \$1,000 contribution to a traditional IRA will reduce total contributions allowable to a Roth IRA by \$1,000. Employer contributions under a SEP or SIMPLE IRA plan do not affect this limit.

If your modified AGI is within the phaseout amounts, your contribution limit is gradually reduced.

When Can You Make Contributions?

You can make contributions to a Roth IRA for a year at any time during the year or by the due date of your return for that year (not including extensions). This means that most people can make contributions for 2023 by April 15, 2024.

Conversion Rules

There are no modified AGI limits or filing status requirements relating to rollovers from eligible retirement plans into Roth IRAs.

Conversion contribution. Money distributed from a qualified plan or IRA and reinvested within 60 days into a Roth IRA is called a conversion contribution. The distribution is taxable to the extent it does not represent a return of non-deductible basis. A conversion contribution is not subject to the 10% early withdrawal penalty. A conversion contribution can also be accomplished through a trustee-to-trustee transfer or a same trustee transfer where the trustee simply redesignates a traditional IRA as a Roth IRA rather than open up a new account or issue a new contract.

Income. In the year of conversion, the amount of the distribution from a traditional IRA or employer plan converted to a Roth IRA is included in gross income.

Employer plan conversions. Money in an employer-sponsored retirement plan, such as a 401(k), annuity, section 403(b) plan, government deferred compensation (§457 plan), or profit-sharing plan, may be directly converted to a Roth IRA.

Inherited IRA. An inherited traditional IRA from someone other than a spouse cannot be converted into a Roth IRA.

Qualified Distributions

A nontaxable qualified distribution is any payment or distribution from a Roth IRA that meets the following requirements.

- It is made after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- The payment or distribution is:
 - Made on or after the date you reach age 59½, or
 - Made because you are disabled, or
 - Made to a beneficiary or to your estate after your death, or
 - Made to purchase a first home (up to a \$10,000 lifetime limit).

Additional tax on early distributions. If you receive a nonqualified distribution, you must pay the 10% additional tax on early withdrawals penalty on the taxable part of any distributions. Exceptions apply.

Nonqualified distributions. A distribution from a Roth IRA that is not qualified may be partly taxable or nontaxable as there is a set order in which contributions and earnings are considered to be distributed from a Roth IRA. The order is as follows:

- 1) Regular contributions.
- 2) Conversion and rollover contributions, on a first-in first-out basis.
- 3) Earnings on contributions.

Distributions from a Roth IRA that are a return of regular contributions are not subject to tax or penalty, no matter when they are withdrawn. Only the portion of the nonqualified distribution allocable to earnings may be subject to tax and the 10% additional tax.

Are Distributions From Roth IRAs Required?

You are not required to take distributions from your Roth IRA at any age. The required minimum distributions (RMD) rules that apply to traditional IRAs do not apply to Roth IRAs while the owner is alive.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

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