ROTH IRA

Created in 1997, a Roth Individual Retirement Account is an after- tax (non-deductible) personal savings plan for retirement-focused investing. It is subject to the many of the same rules that apply to a traditional IRA.

For most participants up to $5,500 can be contributed on an annual basis. However, those 50 or older can contribute up to $6,500. Contributions to a ROTH IRA are subject to limitations of modified adjusted gross income as set forth in the Internal Revenue Code, and may be limited and eventually phased out, and therefore, not allowed.

ROTH IRAs cannot be owned jointly. However, multiple beneficiaries are allowed.

There are no age requirements regarding the establishment of a Roth IRA. However, there must be evidence of “earned income”. As an example, on a Federal tax return, there must be taxable compensation such as wages, salaries, commissions, tips, bonuses, or net income from self-employment. Taxable alimony and separate maintenance payments received by an individual are treated as compensation for IRA purposes.

Compensation does not include earnings and profits from property, such as rental income, interest and dividend income nor any amount received as pension income, annuity income or deferred compensation.

In order for qualified withdrawals to remain tax-free, the following requirements must be met:

1. Withdrawal 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.
2. The payment or distribution is:
    a. Made on or after the date you reach age 59 ½
    b. Made because you are disabled
    c. Made to a beneficiary or to your estate after your death
    d. Used to pay certain qualified first-time homebuyer amounts
    e. For significant unreimbursed medical expenses
    f. For payment of insurance premiums after loss of one’s job
    g. For not more than one’s qualified higher education expenses
    h. Part of a series of substantially equal payments

Distributions that are not a return of your regular contributions from your ROTH are not included in gross income.

Non-qualified distributions may be subject to taxation. It is important to note that ordering rules for distributions exist and can be found in the Internal Revenue Code.

Unlike the Traditional IRA, “required minimum distributions” are not required in a Roth IRA. Monies in a ROTH IRA are not included as assets for financial aid purposes for either the student or the parent.

ROTH Conversions do count as income for financial aid purposes in the year of conversion. However, this could be an “appealable situation” since the person in question has no more money than he or she had prior to the conversion.