THE INVESCO Alternative

Dedicated to helping you ...

... Achieve Financial Independence

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Registered Investment Advisors - Certified Public Accountants - Real Estate Brokers
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IRA Rules

TAX- DEFERRED ACCOUNTS
(Single Version)

IRA: If you are under 70 ½ at year-end you may put up to $5,000 in an IRA before April 15th of the following year ($6,000 if over 50). However, you may not contribute more than your earned income. In addition, if you are covered by an employer plan, the deduction is phased out for modified adjusted gross income (AGI) between $56,000 and $66,000.

You get a tax deduction for the contribution if you meet the above rules. To the extent yourtaxable income is above $33,950, it's probably a good idea to contribute (25% tax savings + 3% IL); if less, do not use a traditional IRA, use a ROTH IRA.

You cannot take a distribution penalty-free until age 59½ ; you must take distributions after
70½. Early withdrawal penalties will be waived in some cases, such as deductible medical expense, college education expenses for you, your children or grandchildren, and up to $10,000 for first-time homebuyer expense; otherwise the penalty is 10% , in addition to the increased income tax.

SIMPLE IRA's: Beefed up IRA for the self-employed ($11,500; $14,000 if 50+ yrs. old.)

ROTH IRA's: The rules are the same as IRAs, except:

1) You can continue to fund a ROTH after age 70½
2) There are no minimum distributions
3) No contributions are deductible
4) NO DISTRIBUTIONS ARE TAXED
5) Your annual contribution is limited if your AGI is over $105,000 (but a ROTH conversion is not included for this rule).
6) There is no 10% penalty on early withdrawal if you've had at least one ROTH account for five years and you're 59 ½.

If your taxable income is under $33,950, the ROTH account is your best investment.

401(k)s & 403(b)s: These are plans where an employer holds your account and sometimes matches some of your tax-deductible contribution. By all means contribute whatever is matched - it's free money! Otherwise, contribute only to the extent your taxable income is over $33,950.

All IRA rules apply, except the 10% early withdrawal penalty is lifted at age 55.

ROLLOVERS: 401k)s may be rolled over to a traditional IRA or to a ROTH. Always use direct rollovers - don't take any money. Legally you can do that once in a 12-month period, but it creates hassles with the IRS and the payer is required to withhold 20% of the distribution. A rollover to a ROTH account is, of course, taxable.

Hint: If your taxable income will be under $33,950, move some money from your IRA to your ROTH at a low tax rate.

If you'd like to start drawing from your IRA at age 55 rather than 59½ or later, roll your 401k) to a separate IRA Rollover account.

TAX- DEFERRED ACCOUNTS
(Married Version)

IRA: If you are under 70 ½ at year-end you may each put up to $5,000 in an IRA before April 15th of the following year ($6,000 if over 50). However, you may not contribute more than your combined earned income. In addition, if either of you are covered by an employer plan, the deduction is phased out for modified adjusted gross income (AGI) between $89,000 and $109,000 for the covered spouse.

You get a tax deduction for the contribution if you meet the above rules. To the extent yourtaxable income is above $68,000, it's probably a good idea to contribute (25% tax savings + 3% IL); if less, do not use a traditional IRA, use a ROTH IRA.

You cannot take a distribution penalty-free until age 59½ ; you must take distributions after
70½. Early withdrawal penalties will be waived in some cases, such as deductible medical expense, college education expenses for you, your children or grandchildren, and up to $10,000 for first-time homebuyer expense; otherwise the penalty is 10% , in addition to the increased income tax.

SIMPLE IRA's: Beefed up IRA for the self-employed ($11,500; $14,000 if 50+ yrs. old.)

ROTH IRA's: The rules are the same as IRAs, except:

1) You can continue to fund a ROTH after age 70½
2) There are no minimum distributions
3) No contributions are deductible
4) NO DISTRIBUTIONS ARE TAXED
5) Your annual contribution is limited if your AGI is over $167,000 (but a ROTH conversion is not included for this rule).
6) There is no 10% penalty on early withdrawal if you've had at least one ROTH account for five years and you're 59 ½.

If your <u>taxable</u> income is under $68,000, the ROTH account is your best investment.

401(k)s & 403(b)s: These are plans where an employer holds your account and sometimes matches some of your tax-deductible contribution. By all means contribute whatever is matched - it's free money! Otherwise, contribute only to the extent your taxable income is over $68,000.

All IRA rules apply, except the 10% early withdrawal penalty is lifted at age 55.

ROLLOVERS: 401k)s may be rolled over to a traditional IRA or to a ROTH. Always use direct rollovers - don't take any money. Legally you can do that once in a 12-month period, but it creates hassles with the IRS and the payer is required to withhold 20% of the distribution. A rollover to a ROTH account is, of course, taxable.

Hint: If your taxable income will be under $68,000, move some money from your IRA to your ROTH at a low tax rate.

If you'd like to start drawing from your IRA at age 55 rather than 59½ or later, roll your 401k) to a separate IRA Rollover account.