WP | WePhix ™
Business Management Technologies Inc

IRAs: FAQs

Frequently asked questions

• Who qualifies for a tax-deductible Traditional Individual Retirement Account (IRA)?

Regardless of income, any individual with compensation from employment or earned income from self-employment and under age 70_ (or the spouse of a working individual) is eligible to contribute to a Traditional IRA. Contributions for an unmarried person are tax deductible if the individual is not an active participant in an employer-sponsored retirement plan. Those who are active plan participants must meet specified income limits to qualify for tax-deductible contributions. Income refers to Adjusted Gross Income, or AGI.

Single*, Active Participant			Married, Filing Jointly**		
Year	**Full deduction**	**Phased out**	**Year**	**Full deduction**	**Phased out**
2003	**$40,000**	**$50,000**	**2003**	**$60,000**	**$70,000**
2004	**45,000**	**55,000**	**2004**	**65,000**	**75,000**
2005+	**50,000**	**60,000**	**2005**	**70,000**	**80,000**
			2006	**75,000**	**85,000**
			2007+	**80,000**	**100,000**

* Refers to any non-married filing status.

** If you are married and file separately, your full deduction limit is $0 and phase out amount is $10,000 in all years.

You may make and deduct the maximum contribution if your AGI is below the specified lower limit. If your AGI is above the specified limit, the amount you may contribute and deduct decreases ratably (but not below $200), until your AGI reaches the specified upper limit.

For instance, if you are single and an active participant in an employer-sponsored retirement plan in 2003, you may make the maximum tax-deductible contribution if your adjusted gross income is under $40,000. If your income is $49,000, you may make a partly deductible contribution, and if your adjusted gross income is over $50,000, you cannot make a deductible contribution.

If you are an Active Participant and your AGI is at or above the upper limit, you may not make any tax-deductible contributions to a Traditional IRA. However, you may still be eligible to make non-deductible contributions to a Traditional IRA, and you may be eligible to contribute to a Roth IRA.

• What is the benefit of a tax-deductible Traditional IRA?

The main benefit is that all contributions are made with "pre-tax" dollars, meaning you deduct your contribution from current income, allowing you to save on taxes.

• What is the maximum contribution I can make to a Traditional or Roth IRA?

The maximum contribution is $4,000 for 2005 and 2006 or 100% of your compensation, whichever is less. If you are eligible and choose to make contributions to both a Traditional IRA and a Roth IRA, the total of your contributions to both may not exceed the lesser of $4,000 for 2005 and 2006 or the 100% of compensation limit. In addition, catch-up contributions of $500 for 2005 and $1,000 for 2006 are permitted for any individual who is 50 or older.

• Can non-wage-earning spouses make tax-deductible contributions to a Traditional IRA?

Yes. A spouse who does not earn income can contribute up to $4,000 ($4,500 if you are age 50 or older in 2005 and $5,000 if you are age 50 or older in 2006) to a Traditional IRA and deduct the entire contribution from income reported on a joint tax return if the couple's combined adjusted gross income (AGI) is less than or equal to $150,000. If the couple's AGI is between $150,000 and $160,000, the spouse's contribution may be partially deductible.

• When can I withdraw money from my Traditional IRA?

You can withdraw money from a Traditional IRA at any time. However, you may be subject to ordinary income tax and an IRS imposed penalty tax. See next question for further information. You must begin taking mandatory distributions when you become age 70_.

• How are Traditional IRA distributions taxed?

All earnings and deductible contributions become subject to tax on withdrawal. The tax rate is based on the individual's ordinary income tax rate at the time of withdrawal.

If your tax bracket is lower when you receive a distribution than when your IRA earned income, you benefit from tax savings in addition to tax deferral on the earnings.

Taxable distributions taken before you reach age 59_ are subject to a 10% federal penalty tax. Generally, distributions are not subject to the penalty tax if taken after age 59_, or on account of disability or death.

Penalty-free withdrawals are also allowed when they are made to cover:

-Qualified costs (including down payment and closing costs) for purchasing a first home, up to a $10,000 lifetime limit.
-Higher education expenses, including tuition and related costs.
-Medical expenses exceeding 7.5% of Adjusted Gross Income (AGI) in any given tax year.
-Medical insurance premiums during periods of unemployment, when an individual has been receiving either federal or state unemployment compensation benefits for at least a 12-week period (or a self-employed person could have received benefits but for being self-employed).
-Series of substantially equal periodic payments (72(t) method).

These penalty-free withdrawal costs may be incurred by you, your spouse or your children. In the case of first-time home purchases, the costs may be included by your grandchildren or ancestors, as well. For higher education expenses, grandchildren count as eligible family members.

• Do I qualify to make contributions to a Roth IRA?
If you are single and have compensation from employment or earned income from self-employment and your modified adjusted gross income (MAGI) is less than $95,000, you can make the maximum annual contribution, regardless of your age; if your MAGI is more than $95,000 but less than $110,000, you can make a partial contribution.

If you are married and have compensation from employment or earned income from self-employment and have joint MAGI of up to $150,000, you can make the maximum annual contribution, regardless of your age; if your MAGI is more than $150,000 but less than $160,000, you can make a partial contribution.

If your federal filing status is "married, filing separately," you may not make a Roth IRA contribution if your MAGI exceeds $10,000.

For this purpose, MAGI is AGI modified to include certain earnings such as foreign earned income, and a married individual who has lived apart from his or her spouse for the entire taxable year and who files separately is treated as a single taxpayer.

• What is the maximum contribution that can be made to a Roth IRA?
You can contribute up to $4,000 ($4,500 if you are age 50 or older in 2005 and $5,000 if you are age 50 or older in 2006) or up to 100% of your compensation whichever is less. If you are eligible to do so, you may contribute to both a Traditional IRA and a Roth IRA in the same year, but the total amount you contribute cannot exceed the annual limits. Roth IRA contributions are not tax deductible.

• Can non-wage-earning spouses make contributions to a Roth IRA?
Yes. A spouse who does not earn income but who files a joint federal income tax return can contribute up to $4,000 ($4,500 if you are age 50 or older in 2005 and $5,000 if you are age 50 or older in 2006) to a Roth IRA based on the earned income of the joint filer and the MAGI on the joint return. These contributions are not deductible from current taxes.

• When can money be withdrawn from a Roth IRA?
Money can be withdrawn at any time. However, earnings included in distributions taken prior to age 59 _ may be subject to both income tax and a 10% federal penalty tax, as shown below in the next question. Conversion amounts may also be subject to the 10% penalty.

• How are Roth IRA distributions taxed?
There are three different tax treatments for distributions of earnings from Roth IRAs. The distribution is either:

Tax-free, penalty-free (known as "Qualified Distributions")
Distribution taken after "Five-Year Holding Period"
and either:
After age 59 _,
First-time home purchase (up to $10,000 lifetime maximum),
Disability, or
Death.

Tax, no penalty
Distribution taken before the "Five-Year Holding Period"
and either:
After age 59 _, or
Due to a Life Event Distribution Exception.

Tax, with penalty
Distribution taken before the "Five-Year Holding Period"
and:
Before age 59 _, and
Not due to a Life Event Distribution Exception.
The income tax applies to all withdrawals of earnings made before the "Five-Year Holding Period" is satisfied even if the Roth IRA owner is over 59 1/2, disabled, dies or uses the distribution for a first home purchase.

• What are the eligibility requirements for establishing a Rollover IRA?
If you have been covered by your employer's retirement plan and are about to receive a qualified distribution from that plan, you may be eligible to establish a Rollover IRA. You may establish a Rollover IRA at any age.

• Is there a limit on the amount I can roll over into an IRA?
Your rollover contribution must be in cash or in the form in which it is received. If you receive securities (or other property) from your employer's retirement plan, you may either roll over the securities or sell them and roll over the cash proceeds of the sale within 60 days. Any portion not rolled over by the 60-day deadline will be subject to federal income taxes and a 10% early withdrawal penalty (if under age 59 _).

Your rollover contribution must be in cash or in the form in which it is received. If you receive securities (or other property) from your employer's retirement plan, you may either roll over the securities or sell them and roll over the cash proceeds of the sale within 60 days.

• What are the benefits of establishing a Rollover IRA?
When you open a Rollover IRA to receive a qualified distribution, you can defer any current tax liability on that distribution and your funds can continue to grow on a tax-deferred basis until you withdraw them.