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IRS

Department of the Treasury
**Internal Revenue Service**

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THE IRS WANTS YOU TO KNOW

# *IRA tax benefits 1999*

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*With all you've heard about Roth IRAs, deductible IRAs, non-deductible IRAs—are you a bit confused about what's best for you?*

*Here's a quick overview, straight from the IRS.*

*First, the main point of the Roth IRA is that you don't pay income tax on qualified withdrawals—not even on the gains, dividends and interest that build up—if you are age 59½, and the account has been open for five years. Tax-free withdrawals are also allowed for first-home purchase ($10,000 lifetime cap) or upon death or disability. Again, the five-year requirement applies.*

*You can't deduct a Roth IRA contribution from your taxable income, but it's an excellent choice for future tax savings.*

# Roth IRAs And Traditional IRAs

**You can convert money to a Roth IRA from a traditional IRA to save taxes on future earnings.**
The taxable portion of the money withdrawn from your traditional IRA must be included in your taxable income for the year of the allowable conversion. However, you are exempted from paying the 10% additional tax on early withdrawal. This conversion is not allowed if your Modified Adjusted Gross Income is over $100,000, or if your filing status is married filing separately and you lived with your spouse at any time during the year.

> ***You don't pay tax on a Roth IRA for qualified distributions. Not even on future gains.***

**A traditional IRA is still a top choice for immediate tax savings.**
You're probably familiar with the benefits. If you qualify, you can deduct your contributions to this type of IRA from taxable income, and save on taxes the same year. Generally, you don't pay tax until you make withdrawals—usually after retirement. But then, unless you made non-deductible contributions, the total amount withdrawn is included as income.

**A Roth IRA—unlike a traditional IRA—has no "age 70 1/2" rule.**
You can make contributions to a Roth IRA at any age if you have taxable compensation. And the traditional IRA requirement that you start making withdrawals at age 70 1/2 does not apply to a Roth IRA.

**Qualifications for the Roth IRA:**
The maximum Roth IRA contribution of $2,000 per year is allowed for individuals of any age, with taxable compensation and Modified Adjusted Gross Income below $150,000 for married filing jointly; $95,000 for a single taxpayer, head of household, or married filing separately (if you did not live with your spouse at any time during the year); or $10,000 for married filing separately (who lived together during the year).

This maximum phases out between $150,000 to $160,000 for married filing jointly, or $95,000 to $110,000 for a single taxpayer, head of household, or married filing separately (if you did not live with your spouse at any time during the year). For married individuals filing separately, who lived together during the year, the phase-out is from $0 to $10,000.

Participation in an employer's retirement plan does not affect your eligibility for a Roth IRA.

**Note:**
- Total contributions to all traditional and Roth IRAs, other than employer contributions, cannot exceed $2,000 per taxpayer, per year.
- You can still roll over money from an employer's qualified retirement plan to a traditional IRA, but you cannot convert such funds directly to a Roth IRA.

# IRA Flexibility For ’99

**You can withdraw up to $10,000 from a traditional or Roth IRA to buy a first home.**
You won’t be charged the 10% additional tax on early withdrawal if you use the money within 120 days to pay qualified acquisition costs for the purchase of a first home. To qualify, purchase may be for you or your spouse, or either one’s children, grandchildren, parents or grandparents.

**You can also withdraw funds from a traditional IRA for certain educational expenses—without the 10% early withdrawal tax.**
You won’t be charged the 10% additional tax on early withdrawal, if the amount does not exceed the qualified higher education expenses for you or your spouse, or either one’s children or grandchildren.

***The taxable portion of either of these withdrawals must still be reported as income for the year.***

**Questions?**
For further details on IRA benefits and guidelines, consult your IRS tax instructions or your tax preparer.

Or check our Web site at
**www.irs.gov**