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U.S. Individual Retirement Account (IRA) Introduction

An individual retirement account (IRA) is a tax-advantaged investing tool that allows individuals to save money for retirement. The following will discuss the two basic types of IRA: Traditional IRA and Roth IRA.

1. Traditional IRA

Contributions you make to a Traditional IRA may be fully or partially deductible, depending on your circumstances, and generally amounts in your traditional IRA (including earnings and gains) are not taxed until distributed.

(1) Who can contribute?

You can contribute if you (or your spouse if filing jointly) have taxable compensation. Prior to January 1, 2020, you were unable to contribute if you were age 70½ or older.

(2) How much can I contribute?

The annual maximum contribution to traditional IRA is limited to the lesser of:

For 2019, 2020, \$6,000, or \$7,000 if you are age 50 or older by the end of the year;
or
Earned income.

(3) What is the deadline to make contribution?

The deadline to contribute to a traditional IRA is normally the same as the deadline to file your tax return: April 15.

(4) Are my contributions deductible?

You can deduct your contributions if you qualify. However, you might not be able to deduct all of your traditional IRA contributions if you or your spouse participates in another retirement plan at work. The deduction is also limited to the adjusted gross income level.

(5) Are my withdrawals and distributions taxable?

Any deductible contributions and earnings you withdraw or that are distributed from your traditional IRA are taxable. Also, if you are under age 59 ½ you may have to pay an additional 10% tax for early withdrawals unless you qualify for an exception.

2. Roth IRA

A Roth IRA is a special retirement account where you pay taxes on money going into your account, and then all future withdrawals are tax-free (if you satisfy the requirements).

(1) Who can contribute?

You can contribute at any age if you (or your spouse if filing jointly) have taxable compensation and your modified adjusted gross income is below certain amounts.

(2) How much can I contribute?

The annual maximum contribution to Roth IRA is limited to the lesser of:

For 2019, 2020, \$6,000, or \$7,000 if you are age 50 or older by the end of the year;
Or
Earned income.

(3) What is the deadline to make contribution?

The deadline to contribute to a Roth IRA is normally the same as the deadline to file your tax return: April 15.

(4) Are my contributions deductible?

Your Roth contributions are not deductible.

(5) Are my withdrawals and distributions taxable?

None if it is a qualified distribution. Otherwise, part of the distribution or withdrawal may be taxable. If you are under age 59 ½, you may also have to pay an additional 10% tax for early withdrawals unless you qualify for an exception.

[Reference]: <https://www.irs.gov/retirement-plans/traditional-and-roth-iras>



If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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