ACUMEN WEALTH ADVISORS®

INTRODUCTION TO ROTH IRAS

A Roth individual retirement account (IRA) is a retirement savings option for clients looking for potentially greater tax savings than a traditional IRA. Contributions can be made at any age and are made post-tax. Earnings grow tax-free, and qualified withdrawals and distributions are free of federal income tax if certain requirements are met. Roth IRAs do not have required minimum distributions (RMDs), and qualified distributions are tax-free, after age 59 1/2.

A Roth IRA can be contributory, rollover, or spousal, and it can be funded from your own earned income, through conversions of traditional IRAs or qualified retirement plans (QRPs), through a rollover of Roth contributions to a 401(k) or QRP, or through a rollover from a Roth 401(k). Contact your tax advisor regarding any tax implications of conversion.

Key information related to a Roth IRA:

Deadlines:

> Establish a Roth IRA: April 15 of the following year for which the contributions are meant

> Contribute to a Roth IRA: April 15 of the following year

> Convert to a Roth IRA: December 31

Contributions:

> Contributions limits apply

> Contributions must be from earned income.

> Regular contributions must be in cash or cash equivalents.

> Contributions may continue beyond age 70 1/2 and are nondeductible, and eligibility depends on income.

Tax Ramifications:

> Contributions are not tax-deductible.

> Earnings grow tax-free.

> Withdrawal of contributions is tax-free.

> Withdrawal of earnings is tax-free if account has been open more than five years and withdrawal is due to:

- Reaching age 59 1/2 or older
- Certain first-time home purchases
- Disability or death
- Current vs. future tax brackets are a consideration in determining if a Roth conversion is right for your client.
- With a Roth IRA, you eliminate the income tax on qualified distributions the account holder's heirs would otherwise have to pay on withdrawals from an inherited traditional IRA.
- All non-spouse beneficiaries must take RMDs once the Roth account is inherited. A spousal beneficiary may delay RMDs until the date the decedent would have been 70 1/2 years old, or they can treat the Roth IRA as his or her own.

Income Limitations:

Modified Adjusted Gross Income (MAGI) for tax year 2020 limited to:

Single

< $124,000	Can contribute full amount
$124,000 - $139,000	Can contribute partially
> $139,000	Cannot contribute

Married filing jointly

< $196,000	Can contribute full amount
$196,000 - $206,000	Can contribute partially
> $206,000	Cannot contribute

Married filing separately

< $10,000	Can contribute partially
>$10,000	Cannot contribute

Rollovers / Conversions:

- > All investors may convert a traditional, SIMPLE IRA, SEP-IRA or SAR-SEP IRA to a Roth IRA regardless of income or tax filing status (considered a taxable event).
- > Traditional IRAs, Rollover IRAs, and SEP IRAs can be converted at any time. However, SIMPLE IRAs must be open for a two-year holding period before they can be converted to a Roth.
- > A qualified plan (such as a 401(k) or QRP) may be rolled over to a traditional IRA or converted to a Roth IRA.
- > All investors are eligible to convert to a Roth IRA.
- > The Tax Cuts and Jobs Act of 2017 eliminated the ability to recharacterize (reverse) a Roth conversion after December 31, 2017.
- > There is no deadline for converting. The converted amount is reported on IRS form 1099R in the tax year it occurred.

Withdrawals:

Withdrawals of earnings are income-tax-free as long as the account holder is at least 59 1/2 and has had the account for at least five years (minimum holding period). Unlike traditional 401(k)s and IRAs, Roth IRAs don't require the account holder to take minimum distributions starting at age 70 1/2. However, if converting to a Roth IRA after age 70 1/2, they still have to take one final RMD from their traditional retirement account for the conversion year.

With a Roth IRA, the account holder may be able to take an early distribution on an exception basis without paying the early distribution penalty. Early distribution exceptions include but are not limited to:

- > Qualified higher education expenses
- > First-time home purchases
- > Qualified medical expenses
- > Qualified disability claims

Withdrawal Penalties:

- > A 10% penalty on distributions of earnings if withdrawn before age 59 1/2 or before the account has been opened at least five years
- > A 10% penalty on distribution of converted assets that have not been in the account at least five years and are withdrawn before the age 59 1/2

Distributions:

- > Not subject to RMDs
- > Account holders can take qualified early distributions without paying an early distribution penalty.
- > Qualified early distributions include, but are not limited to:
    - Qualified higher-education expenses
    - First-time home purchases
    - Qualified medical expenses
    - Qualified disability claims

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Stay in Touch

Our newsletter, entitled Market Insights, provides relevant information regarding current economic conditions, how they immediately impact markets, and general information on our firm's investment strategies. If you would like to receive Market Insights, please let us know at: **clientservices@acumenwealth.com.**

For the latest news, commentary, and analysis of the financial world, we encourage you to visit our website at **www.acumenwealth.com** and find us at:

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