



Tax-free retirement money

The great advantage of the Roth IRA over the traditional IRA is the potential for complete tax freedom for one's savings. Note carefully the word "potential." The IRS has several hoops for taxpayers to jump through before tax freedom is achieved. The most important of these is a five-year waiting period. The hoops have been arranged into a convenient flowchart by the IRS in its Publication 590, *Individual Retirement Arrangements*. The illustration here is adapted from the IRS version.

Even if the conditions are not met, the taxpayer may not owe tax or penalties on a withdrawal from a Roth IRA. That's because withdrawals from ordinary Roth IRAs are treated first as a nontaxable return of after-tax contributions. However, an exception to this rule applies to Roth IRAs created by conversion from a traditional IRA or rollover from an employer's plan. In those cases penalties may be triggered for early withdrawals.

See your tax advisors to learn more about how these rules may apply to your situation.

IS THE DISTRIBUTION FROM YOUR ROTH IRA TAX FREE?

START HERE

Has it been at least 5 years from the beginning of the year on which you first set up and contributed to a Roth IRA?

NO

YES

Were you at least 59½ years old at the time of the distribution?

YES

NO

Is the distribution being used to buy or rebuild a first home as explained in *First Home* under *Early Distributions* in chapter 1?

YES

NO

Is the distribution due to your being disabled?

YES

NO

Was the distribution made to your beneficiary or your estate after your death?

NO

YES

The distribution from the Roth IRA is a qualified distribution. It is not subject to tax or penalty.

The distribution from the Roth IRA is not a qualified distribution. The portion of the distribution allocable to earnings may be subject to tax, and it may be subject to the 10% additional tax.

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