DAVIS & HODGDON ASSOCIATES
CPAs ▪ PLC

Innovative
Entrepreneurial
Experienced

ROTH IRA PLANNING

2014

How can I start a Roth IRA?

After you have determined that you are eligible for a Roth IRA and that it is the most appropriate investment for you, it is fairly simple to start your Roth IRA. There are several different providers from which you can choose.

Banks and insurance companies typically accept small accounts and are a good starting point for first time investors. Mutual funds companies often give you the flexibility to invest parts of your IRA in different funds. This allows you to create an investment focused on growth, on asset protection, or somewhere in between. Many brokerage firms also offer IRA investments that are often known as "self directed IRAs." This type of investment gives you the opportunity to develop a portfolio that consists of specific investments chosen by you. This may be a good choice for more experienced investors.

What are the current contribution limits for a Roth IRA?

The contribution limit is the lesser of earned income or $5,500 for 2014 ($6,500 for those 50 or older)*.* Your adjusted gross income, with certain modifications, must be no more than $181,000 on a joint tax return or $114,000 on a single person's tax return to make the full $5,500 contribution. If your adjusted gross income exceeds $181,000 for a joint return or $114,000 for a single person's return, the amount that you may contribute to a Roth IRA is reduced. It is completely eliminated at $191,000 for a joint return and $129,000 for a single person's return.

How do Traditional IRAs and Roth IRAs differ?

Contributions made to a Traditional IRA are typically tax deductible; however, the distributions are considered income in the year they are withdrawn. Roth IRA contributions are not tax deductible; however, the distributions are tax free if you meet the following two requirements:

1. Five tax years have passed since the first contribution was made.
2. The account owner is at least 59 1/2 or the distribution (up to $10,000) is used for the purchase of a "first" home or is made after the owner's death or disability.

If the first requirement is not met, Roth IRA withdrawals are still tax free to the extent they do not exceed your contributions. The Roth IRA is the only form of retirement savings that provides tax free distributions.

Another difference between Traditional IRAs and Roth IRAs is the Roth IRA owner's are not subject to the requirement to take minimum distributions beginning at the age of 70 1/2 (minimum distribution rules to apply to the owner's heirs).

Lastly, contributions to Roth IRAs can continue past age 70 1/2 as long as the owner has earned income. This is not the case with Traditional IRAs.

Can a Traditional IRA be converted to a Roth IRA?

Converting funds from a Traditional IRA to a Roth IRA is allowed. The conversion triggers taxable income that is normally equal to the amount converted, but then future withdrawals from the Roth IRA are generally tax free.

You should consider the following issues when deciding whether to convert funds to a Roth IRA:

1. How long will the funds remain in the Roth IRA? The longer the better.
2. How will your tax rate change in the future? The lower your tax rate is now compared to the expected future tax rate, the better a Roth IRA conversion looks.
3. Can the conversion be undone if necessary? A conversion of a Traditional IRA to a Roth IRA can be undone if action is taken prior to the due date of your tax return for the year of conversion.

33 Blair Park Rd.
Williston, VT 05495

802-878-1963
802-878-7197 fax

info@dh-cpa.com
www.dh-cpa.com

Can a Roth IRA be combined with a SIMPLE?

Yes. They can be combined as long as the income thresholds are not exceeded. By combining the two, an individual could put aside in excess of $16,500 per year for retirement ($20,000 for those over 50).

What rules apply to Roth IRA beneficiaries?

If the owner of a Roth IRA dies, the beneficiary is subject to most of the same rules. For example, the beneficiary cannot make tax free distributions unless the funds have been in the account for a minimum of five years. However, the five year period does not start over if the owner dies. In most cases, the beneficiary is required to begin withdrawing from the Roth IRA the following year of the owner's death. This means that if the funds had not been in the account for five years when you are required to withdraw funds, you should not withdraw more then the original contributions to avoid being taxed on the distribution.

If the sole beneficiary is the spouse, he or she can delay distributions until the descendent would have reach age 70 1/2 or treat the ROTH IRA as their own. This results in the five year period ending at the earlier of the inherited Roth IRA or the spouse's previously existing Roth IRA.

This newsletter is published by Davis & Hodgdon Associates CPAs as a service to our clients, business associates and friends. Recipients should not act on the information presented without seeking prior professional advice. Additional guidance may be obtained by contacting Davis & Hodgdon Associates CPAs at 802-878-1963.