

IRAs & Roth IRAs

IRA Opportunities

Traditional IRAs

Roth IRAs

Sample

Questions & Answers

What is the purpose of this brochure?

It explains the basic tax rules for traditional IRAs and Roth IRAs. It also explains the IRA contribution credit.

TRADITIONAL IRA

What is a traditional Individual Retirement Account (traditional IRA)?

A traditional IRA is a special tax-deferred savings account authorized by Internal Revenue Code section 408. It is a unique and simple way to encourage people to save money for retirement.

What are the tax benefits realized from a traditional IRA?

Generally for 2007 you may add up to \$4,000 or \$5,000 of earned income to your IRA account each year and have it be either fully or partially tax deductible (see Deductibility Chart). If your contribution is tax deductible, then you receive two tax benefits: 1) an immediate tax savings, because you will pay fewer taxes because of the deduction and 2) the earnings generated by the IRA funds are not taxed until distributed. If your contribution is not tax deductible, you still receive the tax benefit of tax deferral on the IRA's earnings. You may also qualify for a tax credit.

When do I have to establish the traditional IRA?

You have until the due date (without extensions) for filing your federal income tax return, normally April 15, to establish and fund your traditional IRA for the previous tax year.

Am I eligible to contribute to a traditional IRA?

You are eligible for a regular contribution if you do not reach age 70½ in the calendar year for which you wish to make the contribution, and you have compensation (income earned from performing material personal services). You may also qualify for a rollover or a transfer contribution.

How much am I eligible to contribute to my traditional IRA for the current tax year if I will NOT be at least age 50 as of December 31?

You are eligible to contribute the lesser of 100% of your compensation, or \$4,000, for 2007, as reduced by any amount you contributed to your Roth IRA for the same tax year.