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### **What Is a Roth IRA?**

Roth IRAs are tax-favored financial vehicles that enable investors to save money for retirement. They differ from traditional IRAs in that taxpayers cannot deduct contributions made to a Roth. However, qualified Roth IRA distributions in retirement are free of federal income tax and aren't included in a taxpayer's gross income. That can be advantageous, especially if the account owner is in a higher tax bracket in retirement or taxes are higher in the future.

A Roth IRA is subject to the same contribution limits as a traditional IRA (\$4,000 in 2007 and \$5,000 in 2008). Special "catch-up" contributions enable those nearing retirement (age 50 and older) to save at an accelerated rate by contributing \$1,000 more than the regular annual limits.

Another way in which Roth IRAs can be advantageous is that investors can contribute to a Roth after age 70½ as long as they have earned income, and they don't have to begin taking mandatory distributions due to age, as they do with traditional IRAs.

Roth IRA withdrawals of contributions (not earnings) can be made at any time and for any reason; they are tax-free and not subject to the 10% federal income tax penalty for early withdrawals. After a minimum five-year holding period but before age 59½, tax-free and penalty-free withdrawals of earnings can be made due to a qualifying event, such as death or disability or to purchase a first home (up to a \$10,000 lifetime cap).

Although college expenses are not a qualifying event, Roth IRA account owners can withdraw earnings penalty-free for qualifying higher-education expenses (for the account owner, a spouse, a child, or a grandchild). However, these withdrawals would be subject to ordinary income tax.

To qualify for a tax-free and penalty-free withdrawal of earnings in retirement (after age 59½), a Roth IRA must have been in place for at least five tax years.

Keep in mind that even though qualified Roth IRA distributions are free of federal income tax, they may be subject to state and/or local income taxes. Eligibility to contribute to a Roth IRA phases out for taxpayers with higher incomes.

If you're looking for a retirement savings vehicle with some distinct tax advantages, the Roth IRA could be appropriate for you. For more information on how a Roth IRA and other financial solutions can fit into your overall financial plan, contact **Jason M. Woodward, J.D.** today at (603) 264-7550 or [financialattorney@gmail.com](mailto:financialattorney@gmail.com).