

Traditional IRA vs. Roth IRA

If you are trying to decide between opening a traditional IRA or a Roth IRA, chances are you already know contributions to a Roth are not tax deductible (see question #3 below) while withdrawals from a Roth are not taxed (see question #6 below). This is the trade off most people consider in making their choice between the two retirement accounts. But few people focus on the required minimum distribution clause (see question #5 below) which makes the Roth an easy choice if you have a large IRA. Keep in mind this freedom regarding the timing of your Roth IRA distribution also applies to your heirs. With a traditional IRA your heirs must make withdrawals according to a schedule and pay the subsequent taxes on all distributions. With a Roth, your heirs can withdraw at any time and pay no taxes.

Question	Answer	
	Traditional IRA?	Roth IRA?
#1. Is there an age limit on when I can set up and contribute to a	Yes. You must not have reached age 70½ by the end of the year.	No. You can be any age.
#2. If I earned more than \$3,000 in 2004 (\$3,500 if I was 50 or older by the end of 2004), is there a limit on how much I can contribute to a	<p>Yes. For 2004, you can contribute to a traditional IRA up to:</p> <ul style="list-style-type: none"> • \$3,000, or • \$3,500 if you were 50 or older by the end of 2004. <p>There is no upper limit on how much you can earn and still contribute.</p>	<p>Yes. For 2004, you may be able to contribute to a Roth IRA up to:</p> <ul style="list-style-type: none"> • \$3,000, or • \$3,500 if you were 50 or older by the end of 2004, <p>but the amount you can contribute may be less than that depending on your income, filing status, and if you contribute to another IRA.</p>
#3. Can I deduct contributions to a	Yes. You may be able to deduct your contributions to a traditional IRA depending on your income, filing status, whether you are covered by a retirement plan at work, and whether you receive social security benefits.	No. You can never deduct contributions to a Roth IRA.

#4. Do I have to file a form just because I contribute to a	Not unless you make nondeductible contributions to your traditional IRA. In that case, you must file Form 8606.	No. You do not have to file a form if you contribute to a Roth IRA.
#5. Do I have to start taking distributions when I reach a certain age from a	Yes. You must begin receiving required minimum distributions by April 1 of the year following the year you reach age 70 ½.	No. If you are the owner of a Roth IRA, you do not have to take distributions regardless of your age.
#6. How are distributions taxed from a	Distributions from a traditional IRA are taxed as ordinary income, but if you made nondeductible contributions, not all of the distribution is taxable.	Distributions from a Roth IRA are not taxed as long as you meet certain criteria.
#7. Do I have to file a form just because I receive distributions from a	Not unless you have ever made a nondeductible contribution to a traditional IRA. If you have, file Form 8606.	Yes. File Form 8606 if you received distributions from a Roth IRA (other than a rollover, recharacterization, certain qualified distributions, or a return of certain contributions).