Title:
You're Roth IRA Withdrawal

Word Count:
476

Summary:
The Roth IRA was born on January 1, 1998 as a result of the Taxpayer Relief Act of 1997. It's named after former Senator William V. Roth, Jr. The Roth IRA provides no deduction for contributions, but instead provides a benefit that isn't available for any other form of retirement savings: if you meet certain requirements, all earnings are tax free when you or your beneficiary withdraws them. Other benefits include avoiding the early distribution penalty on certain Roth IRA wi...

Keywords:
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Article Body:
The Roth IRA was born on January 1, 1998 as a result of the Taxpayer Relief Act of 1997. It's named after former Senator William V. Roth, Jr. The Roth IRA provides no deduction for contributions, but instead provides a benefit that isn't available for any other form of retirement savings: if you meet certain requirements, all earnings are tax free when you or your beneficiary withdraws them. Other benefits include avoiding the early distribution penalty on certain Roth IRA withdrawals, and avoiding the need to take minimum distributions after age 70½. Contributions to a Roth IRA are not tax-deductible, but earnings grow tax deferred and can be withdrawn tax-free in retirement after age 59 1/2 if the account has been in place for at least five years. In addition, the Roth IRA withdrawals may be permitted without penalty sets no maximum age limit for contributions and imposes no schedule for withdrawals. Roth IRA also incorporates a few other options. Both traditional and Roth IRAs allow withdrawals after age 59 1/2, but unlike the traditional IRA, a Roth will permit contributions after age 70 1/2 and does not require Roth IRA withdrawals on any particular schedule. After five years, a Roth IRA allows tax-free withdrawals for a first-time purchase (up to $10,000), disability or certain emergencies without penalty, up to the amount deposited.

Larger Roth IRA withdrawals, including some or all of the interest earned in the account will be subject to tax. There is also a loophole for early Roth IRA withdrawals know as the "72(t) exception". Under current tax law, you can avoid the 10% penalty tax if you take "substantially equal periodic payments." The Internal Revenue Service 1989 Cumulative Bulletin tells you how to calculate what it considers to be "substantially equal periodic payments". IRS Revenue Ruling 2002-62 adds additional details and clarifies some issues pertaining to Roth IRA withdrawal early. All of these engrossing volumes are very likely available at your local law library. To take a series of "substantially equal periodic payments" from your IRA without penalty, you must withdraw money at least once a year, and you must keep taking withdrawals for five years or until you reach age 59½, whichever is longer. So, a 35-year-old must take withdrawals for twenty-five years, while a 51-year-old must take them for eight-and-a-half years. A 57-year-old would have to take withdrawals for five years, until age 62. Also, you must let a minimum of 5 years plus 1 day elapse from the date of your first SEPP withdrawal before making "unlimited" withdrawals from your IRA, even if you've reached age 59 1/2. Otherwise, the IRS will hit you with the 10% penalty and retroactive interest charges. The amount of your withdrawal is calculated based on the balance of your retirement account on December 31 of the preceding year or any date in the current year prior to the first distribution using your age on December 31st of the year in which you make the withdrawal.