Roth IRAs

The Roth IRA

2025 and 2026

Questions & Answers

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

A Roth IRA is a type of tax-preferred savings and investment account authorized by Internal Revenue Code section 408A. The Roth IRA allows you to accumulate assets for retirement purposes and for other purposes, such as transferring to your children or grandchildren after you have died.

What are the tax benefits of a Roth IRA?

A Roth IRA will produce tax-free income if certain rules are met. You or your beneficiary(ies) will not be required to include in income, for income tax purposes, a distribution paid from a Roth IRA, whether it be the return of a contribution or the account's earnings. In some cases, you may be eligible to claim a tax credit because of your Roth IRA contribution.

What is the basic concept of a Roth IRA, and what are the associated tax benefits?

If you are eligible, you may make contributions, within limits, to the Roth IRA. You make these contributions with after-tax dollars. The earnings realized by the Roth IRA are not presently taxed, and if certain distribution rules are met, will never be taxed. For example, if you are age 42 on Jan. 1, 2025, and you contribute $1,000 a year for 34 years (2025-2058) to a Roth IRA, then your contributions of $34,000 would accumulate to $110,434.88 as of Dec. 31, 2058, if an earnings rate of 6% compounded annually was realized. You and your beneficiary(ies) would not pay any federal income tax on the contribution amount of $34,000 when distributed, because you are not able to claim a tax deduction for your contributions. However, the great tax benefit to be realized from a Roth IRA is that you and your beneficiary(ies) will not have to include in your taxable income the earnings of $76,434.88 (and subsequent future earnings) when distributed to you or your beneficiary(ies), as long as the distributions are qualified distributions, as defined later.

THE CONTRIBUTION RULES

When do I have to establish the Roth IRA?

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

There will be times the April 15th deadline will be changed on account of the Emancipation Day holiday or because of special disaster guidance issued by the IRS.

Am I eligible to make an annual contribution to a Roth IRA?

You are eligible if you satisfy the following two requirements: (1) you have earned income or compensation; and (2) you meet certain modified adjusted gross income limitations. Be aware that you are eligible to make contributions to a Roth IRA even though you are age 73 or older.

If your income (and your spouse's income, if you are married) is too high, you will not be eligible to make an annual contribution to a Roth IRA. For 2025, if you are single, you become ineligible when your adjusted gross income is $165,000 or greater. If you are married, and file a joint return, you become ineligible when the combined adjusted gross income (AGI) of you and your spouse is $246,000 or greater. If you are married and file a separate return, you become ineligible when your adjusted gross income is $10,000 or greater.

For a given year, you may be ineligible to contribute to a Roth IRA, but still be eligible to contribute to a traditional IRA .

May I contribute to a Roth IRA even though I'm making 401(k) elective deferral contributions?

Yes, you may make both types of contributions. In general, the amount you contribute to your Roth IRA is independent of any amount you contribute to the 401(k) plan in which you participate.

How much am I eligible to contribute to my Roth IRA for the 2025 and 2026 tax years if I will NOT be at least age 50 as of December 31?

For 2025 you are eligible to contribute the lesser of 100% of your compensation, or $7,000 for 2025 and $7,500 for 2026 as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

For 2026 you are also eligible to contribute the lesser of 100% of your compensation, or $8,000 for 2025 and

$8,600 for 2026 as reduced by (1) application of the special income and filing status limitation rule and (2) any amount you contributed to your traditional IRA for the same tax year.

How is my allowable contribution to a Roth IRA calculated?

There is a special formula which must be used, as described in the "Roth IRA Contribution Chart." The formula is as follows:

$$\frac{\text{AGI-Threshold Level}}{\text{Phaseout Level - Threshold Level}} = \text{Ineligible Contribution \%}$$

2025 Limits Tax-Filing Status	**Threshold Level**	**Phaseout Level**
Single	$150,000	$165,000
Married/Joint Return	$236,000	$246,000
Married/Separate Return	$0	$10,000

2026 Limits Tax-Filing Status	**Threshold Level**	**Phaseout Level**
Single	$153,000	$168,000
Married/Joint Return	$242,000	$252,000
Married/Separate Return	$0	$10,000

The result is the percentage which cannot be contributed to the Roth IRA. You must then apply this percentage to the maximum contribution amount and then subtract this amount from the allowed contribution amount to get the amount which you can contribute.

Example — Bob and Lynn Brown have adjusted gross income of $240,000 in 2025, and file a joint tax return. Both are 47 years old. They wish to make contributions to Roth IRAs. How much can each contribute to a Roth IRA? Using the formula for a married taxpayer, filing jointly:

Step 1 $240,000 - $236,000/$10,000
Step 2 $4,000 ÷ $10,000 = .4
Step 3 7,000 X .4 = $2,800 *Ineligible Amount*
(**Note: $7,000 is used, not $14,000)**
Step 4 $7,000 - $2,800 = $4,200 *Eligible Amount*

This formula must be calculated separately for each spouse, but is based on their combined income. Bob and Lynn could each contribute up to $4,200 to a Roth IRA in 2025, for a total contribution amount of $8,400.

When might I or my spouse be eligible to use the spousal IRA contribution rules?

If your compensation is less than the $7,000 or $8,000 limit, as applicable, then you are permitted to use your spouse's compensation when making your Roth IRA contribution for 2025. This generally means both of you will be able to contribute $7,000 or $8,000 as applicable. For example, you have compensation of $1,400 and your spouse has compensation of $42,000. You are both age 54. You are eligible to contribute $8,000 to your Roth IRA. Your spouse is also eligible to contribute $8,000. The following rules must be satisfied:

- You and your spouse must each have your own IRA.
- You must be married as of the end of the tax year (i.e. December 31).
- You must file a joint income tax return.
- You must have compensation includible in gross income which is less than that of your spouse.

The combined contribution by both spouses must equal or be less than their combined eligible compensation.

The following Charts summarize the special income and filing status rules for 2025 and 2026:

Roth IRA Contribution Chart for 2025

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below $150,000	Entitled to full contribution amount
$150,000-$164,999.99	Entitled to prorated contribution amount - use special formula*
$165,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $150,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Jointly

Below $236,000	Entitled to full contribution amount.
$236,000-245,999.99	Entitled to prorated contribution amount - use special formula*
$246,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $236,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999.99	Entitled to prorated contribution amount - use special formula*
$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Roth IRA Contribution Chart for 2026

Amount of AGI and Filing Status

Single, Head of Household or Qualifying Widow(er)

Below $153,000	Entitled to full contribution amount
$153,000-$167,999.99	Entitled to prorated contribution amount - use special formula*
$168,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $153,000/$15,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Jointly

Below $242,000	Entitled to full contribution amount.
$242,000-251,999.99	Entitled to prorated contribution amount - use special formula*
$252,000 or more	No contribution permissible.

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $242,000/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

Married Filing Separate Returns

$0-$9,999.99	Entitled to prorated contribution amount - use special formula*
$10,000 or more	No contribution permissible

*Explanation of special formula. Multiply the permissible contribution by the following ratio: amount of adjusted gross income in excess of $0/$10,000. This will give you a ratio that determines the amount you cannot contribute. Round to the lowest $10.00.

To what extent may I be entitled to a tax credit for my Roth IRA contributions?

You may be eligible for a tax credit for contributions you make to your traditional and/or Roth IRA. A formula is used to calculate your credit. Your credit may vary from $1 to $1,000, depending on the amount you contribute to your Roth IRA, your filing status and your modified adjusted gross income. Because of the complexity of this credit, you will want to review IRS Publication 590-A for a complete explanation.

ROLLOVER CONTRIBUTIONS

If I receive a distribution from one Roth IRA, may I roll over the funds to a second Roth IRA?

A rollover from a Roth IRA is a tax-free distribution to you of cash or other assets that you contribute to another Roth IRA or the same Roth IRA in order to continue the tax benefits. You must comply with two rules. First, you must complete your rollover within 60 days. Secondly, you must comply with the rule limiting a person to rolling over only one distribution within a 12-month period (365 days).

May I roll over or directly roll over funds from a qualified plan, a governmental 457 plan, or a section 403(b) plan to a Roth IRA?

Such a rollover is permitted. The sponsor is required to furnish you with distribution and rollover information so you can make an informed decision how you want to structure your distribution and/or direct rollover.

May I convert part or all of my traditional IRA to a Roth IRA?

Anyone having a traditional IRA, SEP-IRA or SIMPLE-IRA is eligible to convert funds from their traditional IRA to a Roth IRA. An individual's RMD for the current year is ineligible to be converted.

You can convert amounts from your traditional IRA to a Roth IRA by doing an internal transfer, an external transfer or a distribution/rollover.

Whatever conversion method is used, the custodian/trustee of the traditional IRA will prepare a Form 1099-R to report the distribution, and the custodian/trustee of the Roth IRA will prepare Form 5498 at the end of the year.

Any Roth IRA conversion made on or after January 1, 2018, is irrevocable. It cannot be undone by recharacterizing it.

Why might I want to convert my traditional IRA to a Roth IRA?

You may find it advantageous to incur the tax consequences of a present distribution in order to qualify to earn the right to have no taxation when the earnings are ultimately distributed from the Roth IRA.

What are the tax consequences of converting funds from a traditional IRA to a Roth IRA?

In general, the amount distributed to you from your traditional IRA will be included in your income in the year of receipt and will be subject to income taxes for that year. The 10% premature distribution excise tax, however, will not be owed, even if you are younger than age 59½. No income tax is paid with respect to that portion of your conversion comprised of basis (i.e. nontaxable funds.)

When may I withdraw money or assets from my Roth IRA?

You may withdraw funds at any time. You are not required to take any distribution while alive.

May I withdraw the basis in my Roth IRA at any time without tax or penalty?

Normally, yes. Even though you may not have met the 5-year requirement, you may withdraw your basis at any time without being taxed on the amount. Because of the tax-ordering rules, the first funds distributed from a Roth IRA are your basis. Because a Roth IRA is funded with after-tax dollars, you will not be taxed when these contributions are withdrawn.

Must I commence required minimum distributions from my Roth IRA at age 73?

No. The required minimum distribution rules for living accountholders (age 73 or older) do not apply to distributions from a Roth IRA.

What distributions from a Roth IRA will be tax-free ?

"Qualified distributions" will be tax-free . To be a qualified distribution, the distribution must occur after you have met the five-year holding requirement, and the distribution is made to you (1) after you have attained age 59½, (2) after you have become disabled, (3) because of a first-time home purchase, or (4) to your beneficiary after your death.

When will I have met the 5-year rule in order to determine if the withdrawal from my Roth IRA is a Qualified Distribution?

The five-year period starts on January 1 of the year for which the first contribution to a Roth IRA is made. All Roth IRA contributions, including rollovers, are aggregated for purposes of satisfying the 5-year rule.

However, for IRS reporting purposes, the Roth IRA custodian/trustee determines if the 5-year period has been met based on the contributions made to it and does not consider contributions you made at another Roth IRA custodian/trustee. Therefore, your Form 1099-R may indicate your distribution was nonqualified, when in fact, it was qualified. You will explain on your tax return that your distribution is tax-free as you met the 5-year requirement because of other Roth IRA contributions made with another Roth IRA Custodian/Trustee.

Does the law define the order for distributions?

Yes. The law mandates the following order for distributions: (1) from regular/annual contributions; (2) from conversion contributions on a first-in-first-out basis and (3) from earnings. The order is determined as of the end of the taxable year, and each category must be exhausted before the next is used.

What Roth IRA distributions will be taxed?

To the extent that a nonqualified distribution is the return of the earnings on your contributions, you will need to include this earnings amount in income and pay the related tax.

May a Roth IRA be used to save for a down payment on a first home?

Yes. A Roth IRA would be an excellent savings vehicle to accumulate funds for the purchase of a first home.

Are there advantages to funding a Roth IRA instead of placing funds in a normal savings account?

Yes, as with a normal savings account, you are allowed to remove your basis from a Roth IRA tax-free at any time. However, with a normal savings account, you will have to include any interest earned in your taxable income for the year (whether you withdraw it or not).

Will the 10% additional tax ever be assessed?

Yes. If you are not yet age 59½ (and none of the other exceptions apply at the time you withdraw funds from your Roth IRA), then you will be liable to pay the 10% additional tax of Code Section 72 if you withdraw income and it is taxable. You may also have to pay the 10% additional tax if you do a conversion before attaining age 59½ and then you take a subsequent distribution of the conversion within a 5-year period when none of the exceptions to the 10% tax apply. A separate 5-year period applies to each conversion and commences on the date of the distribution.

Are there exceptions to the age 59½ rule?

Yes. You will not owe the 10% additional tax even though you are withdrawing income with respect to a nonqualified distribution when you qualify for an exception. You should review Form 5329 for an explanation of the exceptions.

Are there rules which allow me to correct or undo a Roth contribution?

Yes. You may correct a Roth contribution by either withdrawing it according to the withdrawal of excess contribution rules or by recharacterizing your Roth contribution to be a traditional IRA contribution.

What happens to my Roth IRA after I die?

It will continue to exist as an inherited Roth IRA and it will continue to earn tax-free income for a certain period.

If your spouse is your beneficiary most likely he or she will elect to treat your Roth IRA as his or her own Roth IRA since he or she as a Roth IRA owner is never required to take a distribution.

If your beneficiary is a non-spouse beneficiary who is a person, your beneficiary must comply with the required distribution rules. The beneficiary will owe the RMD tax if a required distribution is not timely withdrawn. Once the 5-year taxation rule applying to distributions has been met, all distributions will be qualified and tax-free. One aggregates the time the Roth IRA owner had the Roth IRA with the time the beneficiary has the inherited Roth IRA.

It is very important for a beneficiary to determine if he or she is an eligible designated beneficiary (EDB) or a non eligible designated beneficiary (non-EDB). An EDB may elect the life distribution rule. A non-EDB must close the inherited Roth IRA by using the 10-year rule. Refer to IRS Publication 590-B for definitions of these terms.

A non-spouse non-EDB Roth IRA beneficiary is able to take just one lump sum withdrawal at the end of the 10th year. The concept of the law is - the Roth IRA owner died before his or her required beginning date so the standard 10-year rule applies to such a beneficiary.

In order to maximize tax-free earnings such a beneficiary should wait to take any withdrawals until the 10th year and wait until the end of the year.

A non-spouse EDB Roth IRA beneficiary will need to decide between using the 10-year rule or the life distribution rule. Many such beneficiaries will elect to use the life distribution rule because he or she will have tax-free income for the rest of their lives, not just 10 years. Such a beneficiary is required to start taking annual RMDs the year after the Roth IRA owner dies, but in many cases the RMD will be a small amount due to the age of the beneficiary.