



Roth IRA Basics

[V20N1]

Preview

Roth Tax-Free Qualified Distributions

Qualified distributions are federal income tax free.

For a distribution to be qualified, it must meet BOTH of the following requirements:

- **Satisfy five-year holding period**
AND
- **Have qualifying event**
 - Age 59½
 - Disability
 - First-time homebuyer expenses (limited to \$10,000 lifetime from all IRAs)
 - Death

If you meet certain conditions, your withdrawals from a Roth IRA will be completely free from federal income tax.

<CLICK> To qualify, you must satisfy a five-year holding requirement,

<CLICK> and you generally have to reach age 59½ before making the withdrawal.

<CLICK> Even if you haven't reached age 59½, distributions will be tax free if you satisfy the five-year holding period requirement and you make the withdrawal either because of a disability, or

<CLICK> to pay certain first-time homebuyer expenses.

<CLICK> Payments after your death are also qualified if the five-year holding period is satisfied.

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Roth Qualified Distributions: The Five-Year Holding Period

- Five-year holding period begins on the first day of tax year for which you first made a contribution (annual, rollover, or conversion) to ANY Roth IRA
- Five-year holding period ends after five calendar years
- Applies to your beneficiaries after your death as well
- Spouse beneficiary can roll over to own Roth IRA or treat your Roth IRA as his or her own. In either case, the five-year holding period begins on the *earlier* of:
 - January 1 of tax year your spouse first established any Roth IRA, or
 - January 1 of tax year you first established any Roth IRA

Period begins on January 1 of first tax year for which you made a contribution to any Roth IRA

- Can make a regular (annual) contribution to an IRA for a tax year until April 15 of following year
- If you make regular contribution to first Roth IRA on April 15, 2020, and designate contribution for 2019, five-year holding period begins on January 1, 2019

The five-year holding period begins on January 1 of the tax year for which you first make a contribution to ANY Roth IRA, and

<CLICK> ends after five full calendar years.

You have only one five-year holding period for all Roth IRAs you own for calculating qualified distributions. However, Roth IRAs you inherit are subject to different rules.

<CLICK> The five-year holding period also applies to your beneficiaries after your death. So even though your death is a qualifying event, your beneficiaries will not be able to receive tax-free distributions from your Roth IRA until the five-year holding period is satisfied.

<CLICK> Spouse beneficiaries have additional options. Your spouse can roll your Roth IRA proceeds into his or her own Roth IRA. If your spouse is your sole beneficiary, your spouse can also treat your Roth IRA as his or her own. In either case, your spouse will be able to use either your holding period or his or her own, whichever is more favorable. That is, the five-year holding period will begin on January 1 of the tax year your spouse first established any Roth IRA or, if earlier, January 1 of the tax year for which you first established any Roth IRA.

As I've said, the five-year holding period begins on January 1 of the tax year for which you first establish ANY Roth IRA.

Remember that you generally have until April 15 to make an annual contribution to an IRA for the previous tax year.

So, for example, if you make your first contribution to a Roth IRA on April 15, 2020, and you designate that contribution for the 2019 tax year, your five-year holding period will begin on January 1, 2019.

Now let's look at some specific examples of how the qualified distribution rules work.

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