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ROTH IRAs

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Introduction

The Roth IRA is a retirement saving account to which individuals can make contributions with after-tax dollars. If certain requirements are met, distributions from the Roth IRA will be tax-free. Here we look at the Roth Individual Retirement Account (IRA), how it works, how to set one up, and how distributions are taxed.

Why Establish a Roth IRA?

The Roth IRA is an excellent supplement to an individual's retirement nest egg. It accrues earnings on a tax-deferred basis, but these earnings amounts are tax free if certain requirements are met. For Roth IRAs, contributions are not tax deductible but qualified distributions are tax free. Contributions to the Roth IRA are discretionary, so individuals can choose when they want to fund their Roth IRA.

Eligibility Requirements

Who Can Establish a Roth IRA?

Any individual who has taxable compensation or self-employment income (earned by sole proprietors and partners) for the year may establish and fund a Roth IRA. To be eligible to make a participant contribution, the individual must have a modified adjusted gross income (MAGI) that is less than a certain amount, depending on the tax-filing status of the individual. Here are the base MAGI limits for 2010 and 2011:

Roth IRA MAGI Limits 2010

- $167,000 for individuals who are married and file a joint tax return
- $10,000 for individuals who are married, lived with their spouse at anytime during the year, and file a separate tax return
- $105,000 for individuals who file as single, head of household, or married filing separately and did not live with their spouses at any time during the year

Roth IRA MAGI Limits 2011

- $169,000 for individuals who are married and file a joint tax return
- $10,000 for individuals who are married, lived with their spouses at anytime during the year, and file a separate tax return
- $107,000 for individuals who file as single, head of household, or married filing separately and did not live with their spouses at any time during the year

Establishing a Roth IRA

A Roth IRA must be established with an institution that has received IRS approval to offer IRAs. These include banks, brokerage companies, federally insured credit unions and saving & loan associations.

A Roth IRA can be established at any time. However, contributions for a tax year must be made by the IRA owner's tax-filing deadline, which is generally April 15 of the following year. Tax-filing extensions do not apply. (For background reading, check out *An Introduction To Roth IRAs*.)

There are two basic documents that must be provided to the IRA owner when an IRA is established:

- the IRA disclosure statement
- the IRA adoption agreement and plan document

These provide an explanation of the rules and regulations under which the Roth IRA must operate, and establish an agreement between the IRA owner and the IRA custodians/trustee.

Compensation Defined

For individuals working for an employer, compensation that is eligible to fund a Roth IRA includes wages, salaries, commissions, bonuses and other amounts paid to the individual for services the individual performs for an employer. At a high level, eligible compensation is any amount shown in Box 1 of the individual's Form W-2.

For a self-employed individual or a partner in a partnership, compensation is the individual's net earnings from his or her business, less any deduction allowed for contributions made to retirement plans on the individual's behalf, and further reduced by 50% of the individual's self-employment taxes.

Other compensation eligible for the purposes of making a participant contribution to a Roth IRA includes taxable amounts received by the individual as a result of a divorce decree.

Ineligible Compensation
The following sources of income are not eligible compensation for the purposes of making contributions to a Roth IRA:

- rental income or other profits from property maintenance
- interest and dividends
- other amounts generally excluded from taxable income

Income Limits
Individuals whose MAGI falls within a certain range may not be able to contribute the full contribution limit. These individuals must use a formula to determine the maximum amount they may contribute to a Roth IRA.

Here is a chart outlining the ranges for each tax-filing category:

Category	Income Range for 2010	Income Range for 2011
Married and filing a joint tax return.	At least $167,000 but less than $177,000.	At least $169,000 but less than $179,000.
Married, filing a separate tax return and lived with spouse at any time during the year.	More than zero but less than $10,000	More than zero but less than $10,000
Single, head of household or married filing separately without living with spouse at	At least $105,000 but less than $120,000	At least $107,000 but less than $122,000

any time during the year.		

An individual who earns less than the ranges shown for his or her appropriate category can contribute up to 100% of his or her compensation or the contribution limit, whichever is less.

Those who fall within the ranges must use the following step-by-step formula to determine the amount they may contribute:

- ***Step 1*** - *Subtract* the lowest dollar amount in the range from MAGI
- ***Step 2*** - *Divide* the result in Step 1 by the difference between the lowest amount in the range and the highest amount in the range
- ***Step 3*** - *Multiply* the result from Step 2 by the maximum contribution limit
- ***Step 4*** - *Subtract* the result in Step 3 from the maximum contribution limit. The result is the amount the individual is allowed to contribute to a Roth IRA.

Let's illustrate how the formula works for three different individuals for 2011:

- John, age 35, who is married, files a joint tax return and has a MAGI of $174,000
- Mary, age 30, who is married, files a separate tax return, lived with her spouse during the year and has a MAGI of $5,000
- Jane, age 52, who is single and has a MAGI of $114,000

Step	**John**	**Mary**	**Jane**
Range	$169,000 to $179,000	$0 to $10,000	$107,000 to $122,000
Step 1	174,000000 - 169,000 = 5,000	5,000 - 0 = 5,000	114,000 - 107,000 = 7,000
Step 2	5,000 / (179,000 - 169,000)	5,000 / (0 - 10,000)	7,000 / (122,000 - 107,000)
	5,000 / 10,000 = 0.5	5,000 / 10,000 =	7,000 / $15,000 =

		0.5	0.46
Step 3	0.5 x 5,000 = 2,500	0.5 x 5,000 = 2,500	0.46 x 5,000 = 2,333
Step 4	5,000 - 2,500 = **2,500**	5,000 - 2,500 = **2,500**	5,000- 2,333 = **2,667**

A Roth IRA can also be funded by a conversion.

No Age Limitation
There are no age limitations for funding a Roth IRA.

Contributions

Funding an IRA
A Roth IRA can be funded from several sources:

- Participant contributions
- Spousal IRA contributions
- Transfers
- Rollover contributions
- Conversions
- Recharacterizations

Roth IRA Participant Contributions
Every year, an individual may contribute 100% of compensation up to the following amounts:

Tax Year	Regular Contribution Limit	Tax Year	Additional Catch-Up Contribution Limit
2004	$3,000	**2004**	$500
2005	$4,000	**2005**	$500
2006	$4,000	**2006**	$1,000
2007	$4,000	**2007**	$1,000

2008	$5,000	**2008**	$1,000
2009	$5,000	**2009**	$1,000
2010	$5,000	2010	$1,000
2011	$5,000	2011	$1,000

Individuals who are age 50 and older by the end of the year for which the contribution applies can make additional catch-up contributions. For instance, an individual who is under age 50 may contribute up to $5,000 for tax year 2011, but an individual who reaches age 50 by year-end 2011 may contribute up to $6,000.

All IRA participant contributions must be made in cash (which includes checks), a such Roth IRA participant contributions cannot make contributions in the form of securities.

Spousal IRA Contribution
An individual may establish and fund a Roth IRA on behalf of his/her spouse who makes little or no income. Spousal Roth IRA contributions are subjected to the same rules and limits as that of regular Roth IRA participant contributions. The spousal Roth IRA must be held separately from the Roth IRA of the individual making the contribution, as Roth IRAs cannot be held as joint accounts.

In order for an individual to be eligible to make a spousal Roth IRA contribution, the following requirements must be met:

- The couple must be married and file a joint tax return.
- The individual making the spousal Roth IRA contribution must have eligible compensation.
- The total contribution for both spouses must not exceed the taxable compensation reported on their joint tax return.
- Contributions to one Roth IRA cannot exceed the contribution limits as detailed in the above chart. (For more insight, see *Making Spousal IRA Contributions*.)

Transfers
A transfer is a nonreportable, nontaxable movement of assets between similar types of retirement plans. A Roth IRA owner generally transfers assets between Roth IRAs for the purpose of consolidating assets or changing financial institutions.

A transfer of Roth IRA assets may also be made from one spouse's (or former spouse's) Roth IRA to another, provided the transfer is permitted in accordance with a court-approved divorce decree or a legal separation agreement.

There is no limit to the number of times an IRA holder may transfer assets between Roth IRAs.

Rollovers

Roth IRA to Roth IRA

An individual may make rollover contributions to his or her Roth IRA. A rollover is a tax-free movement of assets between retirement plans, but unlike a transfer, which is nonreportable, a rollover is reportable. The distribution is reported to the IRS and Roth IRA owner on IRS Form 1099-R, and the rollover contribution is reported on IRS Form 5498. An IRA owner may roll over only one distribution from a Roth IRA within a 12-month period.

A rollover contribution may originate from a distribution from the same Roth IRA or another Roth IRA. Rollover contributions must be made within 60 days after the Roth IRA owner receives the distributed assets.

Qualified Plans to Roth IRAs

Individuals can roll over eligible amounts from qualified plans, 403(b) and governmental 457(b) plans to Roth IRAs. These rollovers are reportable and any pretax amount is taxable. The rollover is reported on IRS Form 1099-R for the qualified plan and on IRS Form 5498 for the Roth IRA.

Conversion

A conversion is a reportable movement of assets from a Traditional, SEP or SIMPLE IRA to a Roth IRA. SIMPLE IRA assets cannot be converted to a Roth IRA until two years after the employer first made a contribution to the individual's SIMPLE IRA. (See the tutorial *SIMPLE IRAs* for details.)

The conversion is reported to the IRS and IRA owner on IRS Form 1099-R (for the Traditional IRA) and IRS Form 5498 (for the Roth IRA). There is no limit on the number of conversions an individual may complete within any period, and no income limit for conversion eligibility purposes.

Reconversions

An individual who converts Traditional, SEP or SIMPLE IRA assets to a Roth IRA may have that conversion nullified by recharacterizing the conversion. The individual may then later decide to convert the assets back again to a Roth IRA. The second conversion of these assets is a reconversion, which must not occur before the later date of these two following times:

- the beginning of the tax year following the taxable year in which the first conversion occurred
- 30 days after the recharacterization occurs

Any reconversion that occurs before the later of these two dates is treated by the IRS as a failed conversion and must be returned to the Traditional IRA by means of a recharacterization.

An Example
Tom converted his Traditional IRA to his Roth IRA in January 2011. Then, Tom recharacterized his conversion (back to his Traditional IRA) on December 1, 2011.

Tom may reconvert his Traditional IRA to his Roth IRA any time on or after January 1, 2012, for the following reasons:

- January 1, 2012, is the beginning of the year following the year he first converted his IRA assets.
- January 1, 2012, is later than 30 days after he recharacterized the conversion.

The following are examples of dates on which Tom would be eligible to reconvert his Traditional IRA to his Roth IRA, as determined by the date he recharacterized the conversion:

Date of Conversion	**Date of Recharacterization**	**Earliest Date Eligible for Reconversion**	**Comments**
January 31, 2011	June 30, 2011	January 1, 2012	This is later than 30 days after the recharacterization.
August 31, 2011	October 15, 2012	November 15, 2012	This is later than the first day of the year following the year the conversion occurred.
December 31, 2011	July 15, 2012	August 15, 2012	This is later than the first day of the year following the year the conversion occurred.

Recharacterization
A recharacterization is the act of treating an IRA contribution as one being made to another type of IRA, or, as discussed above, a recharacterization is a reversal of a conversion to a Roth IRA. An individual who makes a contribution to a

Traditional IRA may later decide to treat this contribution as a contribution to a Roth IRA (or vice versa). The assets representing the contribution, along with any net income attributable (NIA) to the contribution are moved from the Traditional IRA to the Roth IRA.

Recharacterizations must be completed by the individual's tax-filing deadline (generally April 15 of the following year) for the year the contribution or conversion occurred. If, however, the individual either files a tax return by the tax-filing deadline or applies for a tax-filing extension by the tax-filing deadline, the deadline for the recharacterization is automatically extended for an additional six months (usually to October 15). (For more insight, check out *Recharacterizing Your IRA Contribution Or Roth Conversion*.)

Deducting IRA Contributions
Roth IRA contributions are not deductible; therefore, unlike a Traditional IRA contribution, a Roth IRA contribution is not affected by an individuals' active-participant status.

Tax-Filing Requirements
Roth IRA participant contributions do not have to be reported on the individual's income tax return. However, the Roth IRA owner may be required to report Roth IRA conversions, recharacterizations and distributions on his or her tax return.

Permissible Investments in IRAs
One benefit of investing in a Roth IRA is that the investment options are many and varied. There are relatively few investments that are not permitted in a Roth IRA. The ability of the Roth IRA owner to choose the type of investment depends on the Roth IRA product and the financial institution. Some Roth IRAs may be limited to a preselected core group of investments or to a specific investment. For others Roth IRAs, the owner is free to choose the investments. These are commonly referred to as "self-directed Roth IRAs" (SDAs).

Permissible investments for IRAs include stocks, bonds, mutual funds, real estate, some coins and money market funds.

Investment in Collectibles
Roth IRAs cannot invest in collectibles, which include art works, rugs, antiques, metals, gems, stamps, coins, alcoholic beverages and certain other tangible personal property. The exceptions are U.S. gold coins, silver coins minted by the Treasury Department, certain platinum, gold, silver, palladium and platinum bullion. Volume limitations apply. (For more insight, see *IRA Assets And Alternative Investments*.)

Some financial institutions place further restrictions on Roth IRA investments.

Distributions

The tax treatment of a Roth IRA distributions depends on whether the distribution is qualified. Qualified distributions from Roth IRAs are tax and penalty free, but nonqualified distributions may be subjected to tax and an early distribution penalty.

Qualified Distribution Defined
For a distribution to be qualified, it must occur at least five years after the Roth IRA owner established and funded his/her first Roth IRA, and the distribution must occur under at least one of the following conditions:

- The Roth IRA holder is at least age 59.5 when the distribution occurs.
- The distributed assets are used toward the purchase, or to build or rebuild a first home for the Roth IRA holder or a qualified family member. Qualified family members include the IRA owner's spouse, a child of the IRA owner and/or of the IRA owner's spouse, a grandchild of the IRA owner and/or of his or her spouse, a parent or other ancestor of the IRA owner and/or of his or her spouse. This is limited to $10,000 per lifetime.
- The distribution occurs after the Roth IRA holder becomes disabled.
- The assets are distributed to the beneficiary of the Roth IRA holder after the Roth IRA holder's death.

For example, if an individual establishes a Roth IRA at ABC Brokerage in 2010 and establishes a second Roth IRA at XYZ Brokerage in 2011, the five-year period that determines a qualified distribution begins in 2010, and the five-year period begins with the first day of the year for which the first contribution is made, which, in this case is January 1, 2010. This is true even if the 2010 contribution is made at anytime up to April 15, 2011.

How Are Non-Qualified Distributions Taxed?
A non-qualified distribution that does not meet the above requirements may be subjected to income tax and/or the 10% early-distribution penalty. The source of a non-qualified distribution determines the applicable tax treatment. Roth IRA distributions can come from the following four sources:

- A regular participant contribution
- a Roth conversion of taxable Traditional IRA assets (Traditional IRA assets for which a tax deduction was allowed) or a rollover of taxable assets from a qualified plan, 403(b) or governmental 457(b) plan. These assets are taxed when converted to the Roth IRA.

- A Roth conversion of nontaxable Traditional IRA assets (Traditional IRA Assets for which there was no tax deduction.), or a rollover of nontaxable assets from a qualified plan or 403(b) plan. These assets are not subjected to income tax when distributed or converted to a Roth IRA.
- Earnings on all Roth IRA assets

To determine the source of assets distributed from a Roth IRA, the IRS uses the "ordering rules". According to the ordering rules, assets are distributed from a Roth IRA in the following order. When assets from one source are used up or non-existent, the assets are distributed from the next source in the list:

1. Regular Roth IRA participant contributions
2. Taxable Traditional IRA conversions and taxable rollovers from qualified plans, 403(b) or governmental 457(b) plans
3. Nontaxable Traditional IRA conversions and nontaxable rollovers from qualified plans and 403(b) plans
4. Earnings on all Roth IRA assets

The following chart summarizes the tax treatment of Roth IRA distributions.

Distributed Assets	**Qualified Distributions**	**Non-Qualified Distributions**	**Comments**
Regular Participant Contributions	- Tax free - Penalty free	- Tax free - Penalty free	Income tax and early-distribution penalty are never applied to distributed assets for which no deduction was allowed when the assets were contributed to the IRA.
Taxable Conversion/taxable rollover	- Tax free - Penalty free	- Tax free - Penalty may apply	- Already taxed when converted or rolled over. - Penalty is waived if any one of the exceptions applies and/or it has been at

			least five years since the conversion occurred.
Nontaxable Conversion/nontaxable rollover	- Tax free - Penalty free	- Tax free - Penalty free	Income tax and penalty are never applied to distributed assets for which no deduction was allowed when the assets were initially contributed to the IRA. For qualified plans and 403(b), these amounts are attributed to after-tax contributions made t the participant’s account.
Earnings	- Tax free - Penalty free	- Taxable - Penalty may apply	Penalty is waived if any one of the exceptions applies.

The earnings on non-qualified distributions are subject to income tax. In addition, any earnings and taxable conversion amounts that have been converted less than five years before the distribution occurs are subject to an early-distribution penalty, unless the assets are used for reasons or under circumstances including the following:

- *The distribution occurs on or after the Roth IRA owner reaches age 59.5.*
- *For unreimbursed medical expenses* - If the distribution is used to pay unreimbursed medical expenses, the amount that exceeds 7.5% of the individual's adjusted gross income (AGI) for the year of the distribution will not be subjected to the early-distribution penalty. In other words, the amount paid for the unreimbursed medical expenses *minus* 7.5% of the individual's adjusted gross income for the year of the distribution can be distributed penalty free.

Example - Unreimbursed Medical Expenses

Jack's AGI is $25,000 and he paid $4,000 for unreimbursed medical expenses.

The amount that exceeds 7.5% of his income = $4,000 - ($25,000 x 7.5%).
=
$4,000 - $1875.
=
$2,125.

The maximum amount Jack may claim for the early-distribution exception is $2,125.

- *To pay medical insurance* - Individuals can make a penalty-free distribution to pay medical insurance for themselves, their spouses and their dependents provided the distribution occurs under the following four conditions:

1. The individual has lost his or her job.
2. The individual has received unemployment compensation paid under any federal or state law for 12 consecutive weeks.
3. The individual receives the distributions during either the year he or she receives the unemployment compensation or the following year.
4. The individual receives the distributions no later than 60 days after he or she has been re-employed.

- *For a disability* - If an individual becomes disabled before age 59.5 and makes a distribution from his or her Roth IRA, the distributions are not subject to the early-distribution penalty. Individuals may be required to furnish proof that a physical or mental condition inhibits them from engaging in substantial gainful activities. A physician must determine that this condition can be expected to result in death or to continue for an indefinite duration.

- *As distributions to the Roth IRA beneficiary* - If the Roth IRA owner dies, the amounts distributed from the Roth IRA by the designated beneficiary are not subject to penalty.

- *As part of an SEPP program* - For penalty-free distributions that are part of a series of substantially equal payments over the life of the Roth IRA holder and his or her beneficiary, the payments must last five years or until the Roth IRA owner reaches age 59.5 - whichever is longer - and the payments must also follow certain IRS-approved methods.

- *For qualified higher-education expenses* - Amounts are penalty free if they must go toward qualified higher-education expenses of the Roth IRA owner and/or his or her dependents. These qualified education expenses are tuition, fees, books, supplies and equipment required for the enrollment or attendance of a student at an eligible educational institution. An eligible educational institution is any college, university, vocational school, or other post secondary educational institution eligible to participate in the student aid programs administered by the Department of Education - these include virtually all accredited post secondary institutions, whether public, nonprofit, or proprietary (privately owned and profit-making). The educational institution should be able to indicate whether it is an eligible educational institution.

- *To purchase a first home* - The Roth IRA owner can make penalty-free distributions to purchase, build or rebuild a first home:
    - for the Roth IRA owner
    - for the Roth IRA owner's spouse
    - for a child of the Roth IRA owner or of the Roth IRA owner's spouse
    - for a grandchild of the Roth IRA owner or of the Roth IRA owner's spouse
    - for a parent or other ancestor of the Roth IRA owner or of the Roth IRA owner's spouse

The first-time homebuyer distribution must be used to pay qualified acquisition costs before the end of the 120th day after the Roth IRA owner receives the distributed assets.

The total distribution the Roth IRA owner uses for first-time home purchases cannot exceed $10,000 during the Roth IRA owner's lifetime. For married individuals, the $10,000 applies separately to each spouse, which means that the total for both is $20,000.

- *For payment of Roth IRS levy* - The IRS may levy against an IRA, resulting in a distribution. The distributed amount is subject to income tax, but the early-distribution penalty is waived.

According to the rules that exempt nondeductible or after-tax assets from income tax and early-withdrawal penalties, distributions of assets from regular Roth IRA participant contributions and nontaxable Traditional IRA conversion assets can be taken at any time, tax and penalty free. Non-qualified distributions of taxable Traditional IRA conversion assets may be subject to early-withdrawal penalties. Non-qualified distributions of earnings may be subject to income tax and early-withdrawal penalty. The following illustration shows when taxes and the early withdrawal penalties apply to Roth IRA distributions. (Learn more in *9 Penalty-Free IRA Withdrawals*.)

Example - Tax and Penalty Free Roth IRA Distribution

Harry established his first Roth IRA in 2007 and funded it with $2,000 as a participant contribution. From 2008 through 2011, he made additional participant contributions, and Harry also converted his Traditional IRA assets to his Roth IRA in 2011. The balance in Harry's Roth IRA is represented as follows:

Assets	Source
$10,000	Roth IRA participant contributions 2007 through 2011
$20,000	Taxable Traditional IRA conversions from 2011 conversion
$5,000	Nontaxable Roth IRA conversions from 2011 conversion
$2,000	Earnings
$37,000	

Harry wants to know the tax consequences should he distribute the assets from his Roth IRA during 2011.

Because Harry has had a Roth IRA for at least five years (2007 to 2011), his distributions will be tax and penalty free if he meets one of the following criteria:

- He is least age 59.5 when the distribution occurs.
- The distributed assets are used toward the purchase or to rebuild a first home for Harry or a qualified family member.
- The distribution occurs after Harry becomes disabled.
- The assets are distributed to Harry's beneficiary after his death.

Example - Roth IRA Distribution Penalty

In this example, Harry establishes his first IRA in 2010 rather than 2007, so he cannot make a qualified distribution until January 1, 2015. Should Harry distribute the full balance of his Roth IRA, it will be treated as follows:

- The $10,000 representing participant contributions will be tax and penalty free. These amounts can be distributed at any time without tax and penalty because no deductions were allowed when they were contributed.
- The $5,000 representing nontaxable conversion will be tax and penalty free. These amounts can be distributed at any time without tax and penalty because no deductions were allowed when they were contributed.
- The $20,000 representing taxable conversion assets will be tax free because the taxes were paid when the assets were converted. However, because it has been less than five years since the conversion occurred, Harry will owe the IRS a 10% early-withdrawal penalty unless he meets one of the criteria listed below in the next section.
- The $2,000 representing earnings will be subjected to income tax. In addition Harry will owe the IRS a 10% early-withdrawal penalty, unless he meets one of the exceptions listed below:
    - He uses the assets to pay unreimbursed medical expenses.
    - He withdraws the assets when he is at least age 59.5.
    - He uses the assets to pay medical insurance.
    - He withdraws the assets while disabled.
    - The assets are distributed by his beneficiary after his death.
    - The distribution is part of SEPP a program.
    - The assets are used for qualified higher education expenses.
    - The assets are used for a first home purchase.
    - The assets are used to pay an IRS levy.

Additional Information

The 10% early-distribution penalty does not apply to certain amounts that are not subject to income tax. These include amounts that were contributed in excess of the contribution limit and are then removed from the Roth IRA before the Roth IRA owner's tax-filing deadline (plus tax-filing extensions). Other amounts that are not subject to income tax are those deposited to a retirement plan as a rollover contribution within 60 days of receipt.

Key Reminders

- If a Roth IRA holder completed multiple Roth conversions, the five-year period for each Roth conversion is determined separately for each conversion.
- For the purposes of determining qualified distributions, there is only one five-year period. This never starts over.
- If an excess contribution is made to a Roth IRA and later removed, this contribution cannot be used to determine the five-year period for qualified distributions.

The responsibility of determining the tax and/or penalty treatment of distributed Roth IRA assets rests with the Roth IRA owner. Roth IRA owners should ensure that they keep proper records of their Roth IRA transactions and that they file the applicable tax forms with the IRS at the appropriate time.

Required Minimum Distributions

The rules for required minimum distributions (RMDs) do not apply to the Roth IRA owner. They do, however, apply to the Roth IRA owner's beneficiary.

Conclusion

Like the Traditional IRA, Roth IRAs are flexible, and they are a popular way for individuals to save for their retirement. Roth IRAs differ, however, because assets can grow on a tax-free basis.

Let's recap:

- Any individual who pays income tax may establish and fund a Roth IRA.
- Rental income, interest and dividends and other amounts generally excluded from employer-paid income are *not* eligible as compensation for contributing to a Roth IRA.

- A Roth IRA can be funded from your own contributions, spousal contributions, transfers and rollovers.
- A Roth IRA must be established with an institution - such as a bank, brokerage or other financial institution - that has received IRS approval to offer IRAs.
- All IRA contributions must be made in cash. Participant contributions cannot be made in the form of securities.
- IRAs cannot invest in collectibles but can invest in U.S. gold coins, silver coins and certain other precious metals.
- Qualified distributions from Roth IRAs are tax and penalty free, but non-qualified distributions may be subjected to tax and early-distribution penalty.