

Individual retirement accounts offer benefits now and, in the future, Planning for retirement may seem daunting, but it's important to start early. Individual retirement accounts provide tax incentives for people to make investments towards their financial future.

IRAs let earnings grow tax deferred. Individuals pay taxes on investment gains only when they make withdrawals. Depositors may be able to claim a deduction on their individual federal income tax return for the amount they contributed to an IRA.

Here are some highlights for the many types of IRAs

Traditional IRA

- Most common type of IRA and generally, the money in a traditional IRA isn't taxed until it's withdrawn
- There are annual limits to the contributions depending on the person's age and the type of IRA
- When planning when to withdraw money from an IRA, taxpayers should know:
 - They may face a 10% penalty and a tax bill if they withdraw money before age 59½, unless they qualify for an exception
 - Usually, they must start taking withdrawals from the IRA when they reach age 73, age 72 if they turned 72 in 2022. For tax years 2019 and earlier, that age was 70½
 - Special distribution rules apply for IRA beneficiaries

Roth IRA

Same rules as a traditional IRA, but there are differences:

- Contributions are made with after-tax funds, and a taxpayer can't deduct contributions to a Roth IRA
- Qualified distributions are tax free
- Don't require withdrawals until after the death of the owner

Other types of IRAs

- **Simplified employee pension** – A SEP IRA is set up by an employer. The employer makes contributions directly to an IRA set up for each employee.

- **Savings incentive match plan for employees** – A Simple IRA allows the employer and employees to contribute to an IRA set up for each employee. It is suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan.
- **Payroll deduction IRA** – Employees set up a traditional or a Roth IRA with a financial institution and authorize a payroll deduction agreement with their employer.

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