



What Is A Traditional IRA?

By: Dr. Scott Brown, Ph.D.

With a traditional Investment Retirement Account (IRA) you pay taxes when you take the money out at retirement in the future. Make sure that this account is really worth opening in your situation because what you put in the account today may be fully deductible, partially deductible or non deductible, depending upon your income and other retirement coverage. If your contributions are not fully deductible then this account is probably not for you.

The traditional (and Roth IRAs) allow you to save \$3,000.00 in 2004 and \$4,000.00 in 2005. If you are over 50 years old you can save an additional \$500.00 as catch-up. You put the maximum amount in if you (or your spouse) are not covered at any time during the tax year by a retirement plan, including a 401(k) account, at work. If you can't afford to save the maximum then just do the best that you can.

If you are single or a head-of-household taxpayer with annual adjusted gross income (AGI) between \$40,000 and \$50,000 and are eligible for a company retirement plan, your deduction will be reduced. Deductions are also limited for married couples filing jointly or qualifying widows or widowers who earn from \$60,000 to \$70,000 per year.

Even if you don't have a retirement plan at work, your deduction may be limited if your spouse, with whom you file a joint return, has a company pension plan. In this case, your deduction will be reduced if your joint income is between \$150,000 and \$160,000. No deduction is allowed if your AGI exceeds \$160,000. If you have a non-working spouse, he or she can contribute up to \$3,000 (\$3,500 if 50 or older) to an IRA also as long as the two of you together make at least as much in annual income as you contribute.

As I said before profits and income from investments are not taxed until you retire and begin withdrawing funds. You can pay capital gains taxes on your stock market profits and then withdraw funds, without penalty, after you reach age 59½. If you take out money before then, you usually will face a 10 percent penalty, plus taxes on the withdrawn amount. Under certain circumstances, you can take penalty-free distributions before age 59½. In the year that you will turn 70½ you can no longer make contributions to your account. In fact, at that age you must start withdrawing money from the traditional IRA or face additional penalties.

This account is ideal for individuals in high tax brackets who cannot open or contribute to a Roth IRA and anticipate facing a lower tax bracket upon retirement. In

other words, if you earn a lot of money now, pay a lot of taxes, can open a standard Roth IRA, and take the full deduction when you contribute then this account may be good for you. This is especially true if you anticipate low income in your retirement years such that you will also be in a lower tax bracket.

About the author: Dr. Scott Brown, Ph.D., the Wallet Doctor, is a successful investor. Dr. Brown holds a Ph.D. in finance. The Wallet Doctor is sought after for investment advice and coaching. For more information visit Dr. Brown's site at <http://www.BonanzaBase.com> or sign up for his investment tips at <http://www.WalletDoctor.com>

Article Source: www.isnare.com

For more information:



CREDIT UNION ONE OF OKLAHOMA

CUOne - Loan Department

800.522.8462 | 405.557.0167

www.creditunionone.org