

By Laurie S. Hart

The ABCs of IRAs

WOULD YOU RATHER scrub a bathroom than plan for retirement? You're not alone. In a recent survey, 31 percent of Americans said they would rather scrub a bathroom than plan for their retirement. If you are putting off planning for your retirement, establishing an IRA can be an easy way to stop scrubbing and start planning for your retirement.

An Individual Retirement Account or IRA is a personal retirement savings plan where you can contribute money each year. Technically, an IRA is a trust or custodial account created or organized in the United States with a written governing instrument. That means the assets of the

account must be invested in a trustee or custodial account with a U.S. bank, savings and loan association, or other qualified financial institution or person.

There are two basic types of IRAs — traditional IRAs and Roth IRAs.

TRADITIONAL IRAs

Contributions to a traditional IRA may be deductible on your personal income tax return depending on your income and whether or not you participate in a retirement plan sponsored by your employer. You do not pay income tax on the earnings of a traditional IRA until you take distributions. When you take

distributions, they are taxed as ordinary income.

ELIGIBILITY

If you have earned income and are under the age of 70.5, you can make a contribution to a traditional IRA. The only question is whether or not your contribution will be deductible. If you or your spouse is an active participant in an employer-sponsored retirement plan, your deduction may be reduced or eliminated. The amount of your contribution that is deductible depends on your adjusted gross income (AGI) and your income tax filing status as follows:

Tax Years Beginning In:	IRA deduction phase-out begins at AGI of:	IRA deduction eliminated if AGI is:
Joint Return Filers		
2006	\$75,000	\$85,000 or more
2007	\$80,000	\$100,000 or more
Single or Head of Household		
2006 and after	\$50,000	\$60,000 or more
Married Filing Separately		
Any tax year	\$0	\$10,000 or more
Non-Active Participant With Active-Participant Spouse		
Any tax year	\$150,000	\$160,000 or more

other things. (However, any such bullion must be kept in the physical possession of your IRA trustee.)

ANNUAL CONTRIBUTION LIMITS

The maximum amount that may be contributed to an IRA for any individual for the tax years 2006 and 2007 is \$4,000, and \$5,000 for 2008 and later. The \$5,000 amount will be adjusted for inflation after 2008. If you turn age 50 before the close of the tax year, you may increase the maximum permitted annual contribution by \$1,000 for tax years 2006 and later. If you have both a traditional and a Roth IRA, your total contributions cannot exceed these limits.

OPENING AN IRA

It is easy to set up and open an IRA. First, figure out if you are eligible for an IRA. You may want to talk to your financial or tax adviser to help you determine your eligibility. Next, decide which type of IRA is the best for you. Again, you may want to talk to your financial adviser to help you decide what type of IRA is best for you. Finally, contact a financial institution that offers IRAs and talk to them about establishing and opening an account. The cost to open and the annual fees to maintain an IRA may vary dramatically from institution to institution. Be a wise consumer and shop around.

DEADLINE FOR OPENING AND CONTRIBUTING TO AN IRA

You have until April 15, 2007, to open and make a contribution to your IRA for 2006. ■

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For example, if you are single and your AGI for 2006 is \$49,000, you will be able to fully deduct your IRA contribution. If your AGI is \$55,000, you will be able to deduct part of your contribution. If your AGI is \$60,000 or higher, you will not be able to deduct any of your contribution.

DISTRIBUTIONS

You can begin taking distributions from a traditional IRA without any penalties once you attain age 59.5. You can take distributions earlier in the case of death, disability, certain medical-related distributions, higher education expenses and certain first-time homebuyer expenses. You must begin taking distributions from a traditional IRA by April 1 in the year after you turn age 70.5.

ROTH IRAS

Contributions to a Roth IRA are not deductible on your income tax return. Like a traditional IRA, your earnings grow tax-free. Unlike a traditional IRA, when you take “qualified” distributions from a Roth IRA, they are not taxable.

ELIGIBILITY

If you have earned income, then regardless of your age, you may contribute to a Roth IRA provided your AGI does not exceed certain limits. If you are a single filer, you can make a full contribution to a Roth IRA if your AGI is less than \$95,000. You may make a partial contribution to a Roth IRA when your AGI is between \$95,000 and \$110,000. But if your AGI reaches \$110,000, you are no longer eligible.

The phase-out range for a Roth IRA contribution for a married couple filing jointly is \$150,000 to \$160,000. For a married person filing separately, the phase-out range is \$0 to \$10,000.

DISTRIBUTIONS

Qualified distributions from Roth IRAs are not included in income. Qualified distributions are those made after the five-tax-year period beginning with the first tax year for which you or your spouse made a contribution to a Roth IRA established for you or your spouse, and are made:

1. On or after attaining age 59.5
2. At or after death (to a beneficiary or estate)
3. On account of disability
4. For a first-time home purchase expense

Roth IRAs do not have mandatory distributions that must begin at age 70.5 unlike traditional IRAs. Generally, you will be subject to a 10 percent penalty if you take early distributions from either a traditional or Roth IRA.

ALLOWABLE INVESTMENTS

You can invest in a wide variety of assets in your IRA. However, an IRA cannot invest in life insurance policies and certain collectibles, such as works of art, rugs, antiques, metals, gems, stamps, coins and alcoholic beverages. You can buy certain gold and silver coins minted by the United States or by U.S. states. You can also invest in high quality gold, silver, platinum and palladium bullion, among