**ROTH IRA OR TRADITIONAL IRA**

TAXES NOW, OR TAXES LATER?

While it’s great to have options, trying to choose between a Traditional IRA and a Roth IRA—for some—can be frustrating and confusing. What are my options? What type of IRA is best for me? Millions of taxpayers struggle with these questions each year.

The good news? Once you break the decision process down into smaller steps, you’ll find the decision isn’t nearly as overwhelming as it first appeared.

IT’S ALL GOOD

When trying to choose between a Traditional IRA and a Roth IRA, it’s important to note that the choice doesn’t have to be an all or nothing proposition. Assuming you meet the funding eligibility requirements, you don’t have to choose one option over the other (although your aggregate contributions must be within the prescribed annual funding limit). Traditional IRAs and Roth IRAs are both tax-advantaged savings vehicles that can help you achieve a more financially secure future.

FIRST THINGS FIRST: ELIGIBILITY

The funding eligibility rules for Traditional IRAs and Roth IRAs are different. So, the first step you should take when trying to decide on an IRA savings strategy is to determine what options are available to you.

TRADITIONAL IRA FUNDING ELIGIBILITY

To be eligible to fund a Traditional IRA, you typically must have earned income. Just because you are eligible to fund a Traditional IRA, however, does not automatically mean that you qualify to take a tax deduction for your contribution. If either you or your spouse participate in an employer-sponsored retirement plan, your ability to take a tax deduction for your contribution will depend on your income level and tax filing status.

ROTH IRA FUNDING ELIGIBILITY

To be eligible to fund a Roth IRA, you typically must have earned income and your income must not exceed the applicable funding eligibility threshold (which varies based on your tax filing status). Unlike Traditional IRA contributions, which are oftentimes tax deductible, Roth IRA contributions are always made with after-tax dollars (i.e., they are never tax deductible).

TRADITIONAL OR ROTH?

Assuming you meet the funding eligibility requirements for both Traditional and Roth IRAs, how do you decide which type of IRA is best for you?

DEDUCTIBLE TRADITIONAL IRA VS. ROTH IRA

If you’re eligible to make a fully deductible Traditional IRA contribution and a Roth IRA contribution, a key factor for you to consider is whether you’d prefer to pay taxes now, or pay taxes later. When choosing to fund a Roth IRA, you’re opting to pay taxes now (i.e., your contribution is not tax deductible) in exchange for the anticipated future benefit of avoiding taxes when you take withdrawals in retirement. On the other hand, if you choose to fund a Traditional IRA (with a fully deductible contribution), you’re opting for an immediate tax benefit in the present knowing you’ll eventually have to pay taxes on your contributions and earnings in the future when you take withdrawals in retirement.

NONDEDUCTIBLE TRADITIONAL IRA VS. ROTH IRA

If you find that you’re eligible to fund a Roth IRA but your funding eligibility for a Traditional IRA is restricted to nondeductible contributions, the Roth IRA option will generally provide a greater tax advantage. Under this situation, you are comparing two IRA funding options that are both made with after-tax contributions with only one option (the Roth) providing the opportunity for tax- free withdrawals at retirement.

ADDITIONAL FACTORS TO CONSIDER

In addition to the basic issue of paying taxes now or later, there are a variety of other factors you should consider:

* Is my future tax rate likely to be higher or lower than my current tax rate?

If you’re expecting to be subject to higher tax rates in the future, this tends to favor a Roth IRA contribution (since your contributions are taxed at your present tax rate). Conversely, if you’re expecting to be subject to lower tax rates in the future, this tends to favor the deductible Traditional IRA contribution (since this allows you to delay taxes on your contributions).

* Might I need to withdraw some of these funds prior to retirement?

If so, one potential advantage of the Roth IRA is that you can withdraw your Roth IRA contributions (i.e., your contribution “basis”) from your Roth IRA at any time without federal taxes or early distribution penalty. With a deductible Traditional IRA, distributions taken prior to age 591/2 are typically subject to income tax as well as a 10% early distribution penalty.

* Would I prefer to avoid mandatory withdrawals?

With a Traditional IRA, you must begin taking annual required minimum distributions (RMDs) once you reach a certain age, depending on your birth date. With a Roth IRA on the other hand, you decide if (and when) you want to take withdrawals—there are no required distributions during your lifetime.