IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA, and a Roth IRA.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Basic eligibility requirements	Any person under age 70½ who has compensation.	Any person under age 70½ who has compensation.	Any person of any age who has compensation.[1]
Maximum contribution	Generally, the lesser of $6,000[2] ($12,000[3] for a married couple) or 100% of compensation.[4]		
Is the contribution deductible?	No	Yes, if neither spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if modified adjusted gross income (MAGI) is less than $64,000. Deduction phased out for MAGI between $64,000 and $74,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if MAGI is $193,000 or less. This deduction is phased out for MAGI between $193,000 and $203,000. The participant spouse may make a deductible contribution if MAGI is $103,000 or less. This deduction is phased out for MAGI between $103,000 and $123,000.[5]	No

[1] For 2019, the maximum contribution to a Roth IRA is phased out for single taxpayers with modified adjusted gross income (MAGI) between $122,000 and $137,000. For married couples filing jointly, the phase-out range is a MAGI of $193,000 to $203,000. For married individuals filing separately, the phase-out range is a MAGI of $0 to $10,000.

[2] This amount applies to 2019. For 2018, the maximum allowable contribution was also $5,500.

[3] This amount applies to 2019. For 2018, the maximum allowable contribution was also $11,000.

[4] If an IRA owner is age 50 or older, he or she may contribute an additional $1,000 ($2,000 if the spouse is also over 50).

[5] These are 2019 limits. For 2018 the phase-out ranges were (1) MFJ - MAGI of $101,000 - $121,000; (2) Single - $63,000 - $73,000. For taxpayers using the MFS filing status, the phase-out range is $0 - $10,000, which does not change.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Are earnings currently taxed?	No	No	No
Taxation of withdrawals at death and disability[1]	Contributions are received tax-free and earnings are taxable.	All distributions are taxable.	No taxation of qualified distributions.
Taxation of $10,000 withdrawn for first-time home purchase[1]	Proportionate part attributable to earnings is taxable.	All $10,000 subject to income tax.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Taxation of withdrawals to pay for deductible medical expenses, e.g., expenses in excess of 10.0% of adjusted gross income (AGI)	Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI.	Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 10.0% of AGI.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Taxation of withdrawals to pay for qualified higher education expenses[2]	Proportionate part attributable to earnings is taxable.	Entire withdrawal is subject to income tax.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]

[1] For individuals under age 59½, the 10% penalty tax does not apply in this situation.

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
Taxation of distributions not covered above[1]	Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate.	All distributions are taxable at ordinary rates.	"Qualified" distributions are not subject to tax. The earnings portion of a "non-qualified" distribution is taxable at ordinary rates.[2]
Are there required, minimum distributions?	Distributions must start by April 1 of the year following the year the account owner reaches age 70½.	Distributions must start by April 1 of the year following the year the account owner reaches age 70½.	No minimum distribution is required during the life of owner.
Are direct transfers of funds in an IRA to a Health Savings Account allowed?	Yes	Yes	Yes
By when must an IRA be set up and funded?	By the due date for filing the IRA owner's federal income tax return for the year of the contribution, generally April 15 of the following year.		
Federal bankruptcy protection	Federal bankruptcy law protects assets in all IRAs, up to $1,283,025. Funds rolled over from qualified plans are protected without limit.		
May federal income tax refunds be directly deposited into the IRA?	Yes	Yes	Yes
Are tax-free direct transfers of up to $100,000 to a qualified charity by an owner at least age 70½ allowed?[3]	Yes	Yes	Yes

[1] All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless an exception applies. For traditional IRAs, the penalty is waived if the distribution is paid out in substantially equal periodic payments over the participant's life or life expectancy. See IRC Sec. 72(t).

[2] Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses. See IRC Sec. 408A(d)(2).

[3] Such a distribution is counted towards a taxpayers RMD requirement. See IRS Notice 2007-7, Q&A-42.

Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.[1] The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

Assumptions:

Desired net annual contribution: $6,000
Marginal income tax bracket – pre-retirement: 28.00%
Marginal income tax bracket – post-retirement: 25.00%
Tax-deferred growth rate: 7.00%
After-tax growth rate: 5.04%
Number of years until retirement: 20

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
A. Pre-Retirement			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	$8,333	$6,000	$8,333
3. Income taxes payable	2,333	0	2,333
4. Net annual contribution to IRA	6,000	6,000	6,000
5. Annual tax savings to taxable account	0	1,680	0
Total net annual savings	**$6,000**	**$7,680**	**$6,000**
B. At Retirement			
1. Net accumulation in the IRA[2]	$263,191	$263,191	$263,191
2. Future value of tax savings	0	58,598	0
3. Total available before taxes	263,191	321,789	263,191
4. Income taxes payable	-35,798	-65,798	0
Net after income taxes	**$227,393**	**$255,991**	**$263,191**

[1] Based on federal law. State or local law may differ.
[2] Assumes annual contributions are made at the beginning of each year.