

Do You Need An Individual Retirement Account?

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An Individual Retirement Account or IRA is defined as a retirement plan that allows the depositor to enjoy certain tax advantages for savings that are intended for retirement.

The individual retirement account and other related plans were actually created as amendments to the Internal Revenue Code of 1954, that was in turn established by the Employee Retirement Income Security Act of 1974. This act enacted the Internal Revenue Code sections 219 and 408 pertaining to IRAs.

There are actually a few different types of IRAs, with some of them being employer-provided and other self-provided plans. These types are:

- Roth IRA, which are contributions that are made with after-tax assets. Transactions under these Individual Retirement Accounts have no effect on taxes, and withdrawals are typically free of taxes as well.
- Traditional IRAs are contributions that are tax-deductible, and are often described as "money deposited before tax" or "contributions made with pre-tax assets"). All of the transactions and earnings within these types of Individual Retirement Account have no effect on taxes, and any withdrawals made at the time of retirement are taxed as income.
- />- SEP IRA are provisions that allow employers, small business owners or self-employed individuals to make contributions for a retirement plan into a Traditional IRA that is in the employee's name, as opposed to a pension fund that is in the company's name.
- SIMPLE IRA is a simplified employee pension plan that will allow both the employer and the employee to make contributions, making it quite similar to a 401(k) plan, although with lower limits on contribution limits and simpler and more affordable administration.
- Self-Directed IRA is a self-directed IRA that allows the holder of the account to make investments on behalf of the retirement plan.

All of the above examples of IRAs are fairly similar with regard to tax laws except for Roth IRAs. In addition, SEP IRAs and SIMPLE IRAs have rules that are a lot like those for qualified plans that govern how contributions can be made and what types of employees are qualified to sign up.

In terms of funding, IRAs can only be funded with cash or the equivalent of cash. The act of transferring of any other type of asset into IRAs is prohibited by law and will entail disqualification of the fund from tax benefits. However, rollovers, transfers, and conversions between IRAs and other types of retirement accounts can and often does include other types of assets.

Keep in mind that the maximum contribution for an IRA in 2006 and 2007 was 100% of the individual's earned income or \$4,000 (whichever is less), for people under 50 years old. People who are over this age can contribute up to 100% of their earned income or \$5,000 (whichever is less). In 2008, the limits were raised to \$5,000 and \$6,000 respectively. This limit is imposed on Roth IRAs, traditional IRAs, or any combination of the two, although you are not allowed to cannot put more than \$5,000 into your Roth and traditional IRA combined, with \$6,000 being the limit for people aged 50 years old and above.

Visit our site for more information about the IRA rollover process and how you can take advantage of our program.

Financial Investing

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