Q. What are Roth individual retirement accounts?

A. Roth individual retirement accounts offer no up-front tax breaks. However, withdrawals of earnings and principal (with some restrictions) are not taxed.

A Roth IRA is a form of individual retirement account in which investors make contributions with after-tax earnings. Eligibility is limited by income. There's still a big tax break: contributions accrue tax-free in the account, and withdrawals are not taxed under normal circumstances. In 2017, 24.9 million people, representing 19.7 percent of all US households, owned a Roth IRA.

ELIGIBILITY AND CONTRIBUTION LIMITS

Only people with incomes under specified limits are eligible to contribute to a Roth IRA. In 2018, the contribution limit for IRAs is the lesser of $5,500 ($6,500 for individuals over age 50) or the taxpayer's taxable compensation. The contribution limit falls once household income exceeds certain thresholds, eventually reaching zero (table 1).

TABLE 1

IRA Eligibility and Contribution Limits

2018

Filing status	Modfied Adjusted Gross Income	Contribution
Single or Head of Household	Less than $120,000	$5,500 (or $6,500 if over 50)
	Between $120,000 and $135,000	A reduced amount
	$135,000 and over	Zero
Married filing jointly or qualifying widow(er)	Less than $189,000	$5,500 (or $6,500 if over 50)
	Between $189,000 and $199,000	A reduced amount
	$199,000 and over	Zero
Married filing separately	Less than $10,000	A reduced amount
	$10,000 and over	Zero

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WITHDRAWALS

Investors can withdraw their contributions (but not investment returns earned on those contributions) at any time without being subject to tax. However, to receive tax benefits on investment returns, withdrawals must be qualified distributions. This means that the investor withdraws funds at least five years after his or her first contribution and after reaching age 59 years and 6 months, dying, becoming disabled, or making a qualified first-time home purchase. Nonqualified distributions do not satisfy the above conditions and are therefore subject to a 10 percent penalty tax. There are several exceptions to the penalty for early withdrawal of investment earnings.

Further Reading

Holden, Sarah, and Daniel Schrass. 2017. "The Role of IRAs in US Households' Saving for Retirement, 2017." Washington, DC: Investment Company Institute.

Topoleski, John J. 2015. "Traditional and Roth Individual Retirement Accounts (IRAs): A Primer." CRS Report RL34397. Washington, DC: Congressional Research Service.