Key Elements of the U.S. Tax System

What are Roth individual retirement accounts?

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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 tax year 2017, nearly 21 million taxpayers, or 10 percent of all taxpayers, owned a Roth IRA.

ELIGIBILITY AND CONTRIBUTION LIMITS

Only people with incomes under specified limits are eligible to contribute to a Roth IRA. In 2020, the contribution limit for IRAs is the lesser of $6,000 ($7,000 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

Roth IRA Eligibility and Contribution Limits

Tax year 2020

Filing status	Modfied Adjusted Gross Income	Contribution
Single, head of household, or married filing separately (did not live with spouse during the year)	Less than $124,000	$6,000 (or $7,000 if age over 50)
	Between $124,000 and $139,000	Reduced amount
	$139,000 and over	Zero
Married filing jointly or qualifying widow(er)	Less than $196,000	$6,000 (or $7,000 if age over 50)
	Between $196,000 and $206,000	Reduced amount
	$206,000 and over	Zero
Married filing separately (lived with spouse during the year)	Less than $10,000	Reduced amount
	$10,000 and over	Zero

Source: Internal Revenue Service. IRA Contribution Limits. February 2020.

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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 the investment earnings portion of the distributions is subject to tax and possibly a 10-percent penalty tax. There are several exceptions to the penalty for early withdrawal of investment earnings.

Updated May 2020

Data Sources

Internal Revenue Service. Retirement Topics - IRA Contribution Limits. February 2020.

———. 2020. SOI Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements, Tax Year 2017. Table 2, 3, 4, and 7.

Further Reading

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