Kim - Wed, 1/15/2014 - 16:15

An Individual Retirement Account (IRA) is a form of tax-free account defined by federal tax law that is designed to encourage taxpayers to save for retirement. The IRA account is set up by the individual and funded by the individual. The maximum amount people under the age of 50 may be able to contribute to their IRA in 2014 remains $5,500. For those ages 50 and up, an additional $1,000 "catch-up" contribution is typically available, for a total limit of $6,500. to an IRA. Contributions to the IRA are tax-deductible if the contributor does not benefit from any other retirement plan or meets certain income criteria. Otherwise, they are not tax-deductible.

An IRA account is tax exempt. Income earned and capital gain realized within an IRA account is not taxed. Distributions from an IRA are taxed as ordinary income to the extent that they represent income earned within the IRA account or pre-tax contributions to the IRA.

The owner of an IRA must start receiving at least minimum distributions from the IRA between ages 59 1/2 and 70 1/2. Complicated rules govern the amount of these minimum distributions once distributions start. A 10% penalty tax is assessed if the owner of the IRA takes a distribution before reaching 59 ½ and a 50% penalty tax is assessed if he or she takes less than the minimum distribution.

Print
Categories
Definitions - General Gift Planning