

Determining Tax on Roth IRA Distributions

...in 5 Easy Steps

What are the ordering rules? Roth IRA distributions can consist of contributions, converted funds and earnings – or any combination of the three. To determine what your distribution is, you must use “ordering rules” which dictate the order in which these categories of Roth IRA money must be withdrawn. All Roth IRAs are considered one Roth IRA for distribution purposes. A Roth IRA distribution will consist first of any Roth IRA contributions. If there are no contributions or those amounts are completely exhausted, the next funds out are converted funds. Once all converted funds have been exhausted, the remainder of the distributions will consist of earnings.



Sean Phillips, CFP®, CKA | 214.572.2120

Vice President of Wealth Management, Wealth Advisor

Sean is a member of Ed Slott's Elite IRA Advisor GroupSM, an exclusive organization of financial advisors who are dedicated to being leaders in the IRA industry. As an Ed Slott Elite IRA Advisor, Sean proves to be an advisor with the specialized knowledge to navigate an increasingly more complicated tax environment.

1. **Are you withdrawing a contribution?** Roth IRA contributions are the annual amounts that you contribute to a Roth IRA account. A distribution of Roth IRA contributions will always be both tax and penalty free.
2. **Are you withdrawing converted amounts before age 59 ½?** Converted funds are never subject to income tax. However, they will be subject to the 10% penalty for early distributions (unless an exception applies) if you are under 59 ½ and they have been in a Roth IRA for less than five years. Each conversion starts its own 10% PENALTY 5-year clock, and the converted amounts are withdrawn on a first-in, first-out basis.
3. **Are you withdrawing converted amounts after 5 years or age 59 ½?** A distribution of converted funds after 5 years or after age 59 ½ will be entirely income tax and penalty free.
4. **Are you withdrawing earnings before age 59 ½?** Earnings withdrawn prior to age 59 ½ are generally subject to income tax regardless of how long they've been in a Roth IRA account. Earnings withdrawn prior to age 59 ½ are also generally subject to the 10% penalty for early distributions unless an exception applies.
5. **Are you withdrawing earnings after age 59 ½ and 5 years?** Earnings withdrawn after age 59 ½ are never subject to the 10% penalty. They may, however, be subject to income tax. If you have held a Roth IRA for more than 5 years, your earnings are tax free, if not, they are taxable at ordinary rates.

Ed Slott's Elite IRA Advisor Group is a group of financial professionals who pay a fee to attend a seminar that explores regulations, tax updates, and other issues regarding individual retirement accounts. It does not qualify a financial professional to provide investment recommendations, or advice. Ed Slott and Ed Slott's Master Elite IRA Advisory GroupSM are not affiliated with CWM, LLC.

Converting from a traditional IRA to a Roth IRA is a taxable event.

This material provided by Sean Phillips and written by Ed Slott and Company, LLC, a non-affiliate of CWM, LLC.

Copyright © 2020, Ed Slott and Company, LLC. Reprinted with permission Ed Slott and Company, LLC takes no responsibility for the current accuracy of this information. Investment advisory services offered through CWM, LLC, an SEC Registered Investment Advisor. 7557 Rambler Road, Suite 1010 | Dallas, TX
75231 214.572.2120 | chessmanwealth.com