What is an IRA?

Worksheet

An IRA is an individual retirement account with tax benefits. Traditional IRAs offer tax-deductible contributions; Roth IRAs offer tax-free withdrawals. Both have annual contribution limits.

Questions

1. Traditional IRA contributions are...

A) Always tax-deductible
B) Never tax-deductible
C) Tax-deductible only if you have no 401(k)
D) Tax-deductible based on income

2. Roth IRA withdrawals at 60 (qualified)...

A) Fully taxed
B) Partially taxed
C) Tax-free
D) Incur 10% penalty

3. Which IRA has income limits?

A) Traditional only
B) Roth only
C) Both
D) Neither

4. RMDs on a Roth IRA during your lifetime?

A) Yes, at 73
B) Yes, at 59½
C) No
D) Yes, but only if you're working

5. You earn 70,000 and contribute7,000 to a Traditional IRA. Assuming 24% tax bracket, how much do you save in taxes?

6. At 60, your Roth IRA has 200,000 (grown from50,000 contributions). You withdraw $30,000. Any taxes?

7. You have a Traditional IRA with $500,000 at age 75. Your IRS factor is 24.5. What's your RMD?

8. Define: What is an IRA?

9. Define: Difference between Traditional and Roth IRA?

10. Define: Who can open an IRA?

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Answer Key

1. D) Tax-deductible based on income — Traditional IRA deductibility phases out based on income if you have a workplace plan.

2. C) Tax-free — Qualified Roth withdrawals (59½+, 5-year rule) are tax-free.

3. B) Roth only — Roth IRA has income limits. High earners can't contribute directly to Roth (but can use 'backdoor' strategy).

4. C) No — Roth IRAs have no RMD requirement during the account owner's lifetime.

5. Tax deduction = 7,000 × 24% =1,680 in tax savings

6. Roth contributions can be withdrawn anytime tax-free. If it's only contribution withdrawal: $0 tax. If earnings withdrawal before 59½: earnings taxed + 10% penalty.

7. RMD = 500,000 / 24.5 =20,408.16

8. An Individual Retirement Account — a tax-advantaged retirement savings account you control.

9. Traditional: deduct contributions now, pay taxes on withdrawals. Roth: pay taxes now, withdraw tax-free.

10. Anyone with earned income. You must have earned income to contribute.

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