

**Interview Questions & Answers  
For  
What American Workers Should Do Before Tax Day: April 17**

**1. What is the most important thing American Workers can do to save money?**

A: The key to saving money is making the right moves regarding their retirement plans and IRAs.

**2. Is there something our (readers, viewers, listeners) should be doing immediately where there is a looming deadline.**

A: Your (readers, viewers, listeners) don't want to miss the deadline for contributing to their 2005 IRA.

**3. What is the deadline for contributing to an IRA for 2005?**

A: Monday April 17, 2006. We get a two day extension because April 15<sup>th</sup> falls on a Saturday this year. This year April 17 is also the deadline for filing our tax return.

**4. Assuming our (readers, viewers, listeners) qualify, what do you usually recommend they do on or before April 17?**

A: For most (readers, viewers, listeners) I recommend they make contributions to a Roth IRA of \$4,000 for themselves and their spouse if they are married. If either spouse is 50 or over, I recommend making a contribution of \$4,500 each.

**5. Does the Roth IRA contribution have to be shown anywhere on their tax return. I suspect some of our (viewers, listeners, readers) have already filed their tax return and don't want to have to file an amended return.**

A: No, there is nowhere on the return to indicate if you made a Roth IRA contribution. Therefore, even if your (readers, viewers, listeners) have filed their return, they can still make a Roth IRA contribution.

**6. Assuming our (readers, viewers, listeners) are eligible for both a traditional IRA and a Roth IRA, why would you recommend a Roth IRA? Aren't you giving up a tax deduction by using the Roth IRA instead of the traditional IRA?**

A: Yes, with a fully deductible traditional IRA assuming the (readers, viewers, listeners) are eligible, they will enjoy an income tax deduction by making a regular IRA contribution. For example, assume a taxpayer in the 25% bracket makes a \$4,000 IRA contribution, they will be able to deduct the \$4,000 and get a \$1,000 refund. If they make a \$4,000 contribution to a Roth IRA, they will not get a tax deduction and they won't get any refund.

**7. If our (readers, viewers, listeners) can put \$4,000 in an IRA and get a \$1,000 refund to either spend or invest, why would they want to do a Roth IRA where you don't get a tax deduction?**

A: The reason (readers, viewers, listeners) should make a Roth IRA contribution instead of a regular or traditional IRA is that when they go to withdraw or spend their IRA, they won't have to pay any taxes on the Roth IRA, including the growth in the account. With the traditional or regular IRA, they will have to pay taxes. In effect, the choice between making a Roth IRA vs. a regular or traditional IRA is that with a traditional IRA you get a tax deduction on the seed (your contribution) but must pay tax on the harvest (your distribution). With a Roth IRA, you don't get a tax deduction on the seed, but you reap the harvest tax-free.

**8. How much better off will a reader be if they make Roth IRA contributions compared to a totally deductible IRA?**

A: Over a 40 year period, using reasonable assumptions, the taxpayer or his family is \$120,928 better off by making Roth IRA contributions vs. regular IRA contributions.

**9. How much better off will a taxpayer be if they make contributions to a Roth IRA versus saving the same amount of money outside a retirement plan?**

A. The difference over a 40 year period is over \$500,000.

NOTE: If the interviewer wants, we could get into the details of the assumptions. For print media we could show a compelling graph that shows the difference.

**10. Is there anything else that our (readers, viewers, listeners) could do right now while they are thinking about their Roth IRAs?**

A: Even though the 2006 contribution isn't due until April 15, 2007, if readers make their 2006 contribution now they will get an extra year of tax-free growth. Of course they could wait, but why not get an extra year of tax-free growth if you can afford to make the contribution for 2006 now.

**11. Is everyone eligible to make an IRA contribution?**

A: No, there is a two part test. First, you, or your spouse if married, must have earned income to make an IRA contribution (including Roth IRAs). Second, the contributions to Traditional IRAs can only be made for individuals who are less than 70 ½ years of age as of the end of the tax year for which the contribution is made. There are no age limits for Roth IRA contributions, but there is an adjusted gross income limit. As long as there is earned income and you meet the age test, you will be able to make an IRA contribution of one kind or another.

**12. What are the eligibility requirements for contributing to a Roth IRA?**

A: You are eligible to make a full Roth IRA contribution if your adjusted gross income is less than \$95,000 for a single or head of household tax return filer, or \$150,000 for married couples filing joint returns. Roth IRAs are not permitted for married individuals filing separate returns.

**13. Are there mandatory distribution ages for both types of IRAs?**

A: No, Roth IRAs have no mandatory distribution age. Distributions on Traditional IRAs are mandatory at age 70 ½, although you can start taking distributions without penalty at age 59 ½.

**14. Are Traditional IRA contributions tax deductible?**

A: Yes, with some restrictions based on income and whether you, or your spouse if married, are covered by a retirement plan at work.

1. If neither you (nor your spouse if you are married) are covered by a retirement plan at work, you can deduct the traditional IRA contribution, no matter how much you earn.
2. If **you** are covered by a retirement plan at work, **your** IRA contribution can only be deducted in full if your adjusted gross income on your tax return is equal to or below \$50,000 for single and head of household filers, \$70,000 for joint return filers, or \$0 (zero) for married filing separately filers.
3. If **you are not covered** by a retirement plan at work, but **your spouse is** covered under a plan, **you** can deduct the full traditional IRA contribution if your joint return's adjusted gross income is equal to or less than \$150,000.
4. For all these contribution deduction limits, the AGI referred to is before the IRA deduction itself. Also if you exceed the limits above by less than \$10,000, then your contribution is partially deductible.

**15. Are Roth IRA contributions tax deductible?**

A: No, they are not.

**16. When are the taxes paid on Traditional IRA contributions?**

A: The taxes on the principal and earnings are deferred until withdrawal on Traditional IRA contributions.

**17. When are the taxes paid on a Roth IRA?**

A: The taxes are paid prior to the contribution to a Roth IRA. The principal and earnings are withdrawn tax free.

**18. Are the contribution limits the same for Traditional and Roth IRAs?**

A: Yes, in 2005 the limit is \$4,000 or \$4,500 at age 50 and up. In 2006-2007, \$4,000 or \$5,000 at 50 and up. In 2008, \$5,000 or \$6,000 at 50 and up.

**19. What does your money get invested in an IRA?**

A: The funds can be used to purchase a variety of investments, including stocks, bonds, mutual funds, certificates of deposits, etc...

**20. Is a Roth IRA generally a better choice than a Traditional IRA?**

A: Yes, you should always choose Roth IRA if you are eligible to do so and are not able to deduct the traditional IRA contribution on your tax return. If you can deduct the traditional IRA contribution, it still will usually still make sense to use the Roth IRA if you can afford to contribute the maximum amount and you anticipate a tax bracket in retirement that is at least as high as the one you are in now. There are other retirement and estate planning advantages to Roth IRAs as well. If you are not eligible to deduct a traditional IRA and are ineligible for the Roth IRA, a non-deductible traditional IRA is usually a good idea too due to the tax deferred status on earnings of the account.

**21. Where can you open an IRA of either type?**

A: IRA's of both types can be opened through a bank or brokerage house.