Take Another Look At The New & Improved IRA's

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less weekly basis.
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Take Another Look At IRA's!

Recent tax law changes could very well increase investments in Individual Retirement Accounts. Before plunging ahead, however, you do need to sort out the new rules covering IRA's and employer provided plans, like 401(k)'s.

The new tax law increases IRA contribution limits, gives you the ability to make payroll deduction contributions to BOTH an IRA AND a 401(k), and improves the flexibility and choices for rollovers when changing jobs.

Some of the advantages that IRA's have over employer provided plans include more investment choices and control over implementing those choices, penalty free withdrawals for first-time home purchase, payment of qualified education expenses, and really useful estate planning techniques.

Despite these excellent features, the reality is that workers have always used employer provided retirement plans more extensively. Reasons include the ease of using pre-tax payroll deductions, the availability of employer matching contributions, and higher contribution limits.

Retirement savers will now be allowed to contribute more to an IRA: $3,000 per year in 2002 to 2004, $4,000 from 2005 to 2007, and $5,000 in 2008, with annual adjustments for inflation after 2008.

Individuals who are age 50 and over can contribute an additional $500 to their IRA in 2002 through 2005, an additional $1,000 in 2006 and all years thereafter. These expanded contribution limits also apply to Roth IRA's. Do make sure that you learn about the maximum income limitations before proceeding.

Employer retirement plans continue to allow higher contributions than IRAs. The limit increases for

401(k), 403(b), and similar plans to $11,000 in 2002, $12,000 in 2003, $13,000 in 2004, $14,000 in 2005, and $15,000 in 2006. After this, the maximum amount is indexed to inflation.

Here's a pretty neat change. Beginning in 2003, the law creates a 'deemed IRA'. Participants in retirement plans like 401(k)'s will be allowed to make payroll deduction contributions to an IRA on top of a 401(k). You will be able to do this using either a traditional or a Roth IRA. IRS 'clarification' to follow.

There are many, many other retirement law changes too numerous to report here.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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