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Choosing a traditional or Roth IRA

Q. I have a 401(k) and I got a raise, so I want to start an IRA. How do I choose between a Roth and a traditional one? I'm 46 years old.
-- Higher-paid guy

A. Congratulations on the raise and for deciding that you want to use the extra income to save for retirement.

Before you consider an IRA, we want to make sure you're making the maximum contribution to your 401(k). The maximum that can be saved in a 401(k) is $18,000, and if you're over age 50, you can make an additional catch-up contribution of $6,000.

If your boss offered both a traditional and Roth 401(k), be sure to read this story.

Now let's look at traditional and Roth IRAs.

In 2017, you could contribute a maximum of $5,500 to either a traditional IRA, a Roth or a combination of both. The catch-up contribution for those age 50 and over is an additional $1,000.

The key difference is the tax treatment of distributions, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.**

She said at age 70 1/2 , you must begin withdrawing from a traditional IRA. These withdrawals are called Required Minimum Distributions, or RMDs.

"The distributions are considered taxable income and must be reported on your annual return if the contributions were considered deductible in the year they were made," she said. "On the other hand, there are no required distributions from a Roth IRA."

Plus, when you take the money from a Roth, the funds are not taxable because contributions are made with after-tax dollars.

Whether you decide on a traditional IRA or a Roth depends a great deal on your current income, Mott said.

"The appeal of a traditional IRA for many is the ability to deduct the contribution against earned income when filing taxes each year," she said. "Because you are covered by an employer-sponsored plan, namely your 401(k), the IRS places income limits on how much can be deducted."

If you are married, file jointly and earn more than $119,000, the deduction is eliminated, Mott said.

She said losing the deduction for the traditional IRA completely would make the Roth the better option, but there are income restrictions for Roths, too.

Under IRS rules, those with modified adjusted gross income under $186,000 who are married and file jointly may make a full contribution to a Roth IRA. Should your income exceed that amount, Mott said, the Roth contribution is reduced and may be completely eliminated.

She recommends you talk to your tax professional about your income and tax situation before making a decision so you can make the most of the contribution.

Email your questions to ask@njmoneyhelp.com