## Is Your Distribution from Your Roth IRA Taxable?

Roth IRAs are funded with after-tax contributions, so you don't have to pay income taxes on those contributions when they are distributed, and, if the distribution is a "qualified distribution," earnings, too, escape being included in gross income. A "qualified distribution" from a Roth IRA is one made:

1. after 5 years – (measured from January 1 of the year for which you first made **any** Roth IRA contributions to any Roth IRA, including rollover or conversion contributions, to the last day of the fifth year); and
2. a. on or after you are age 59 ½;

   b. because you are disabled;

   c. after you die; or

   d. to buy, build, or rebuild your first home.

Qualified distributions are not subject to the §72(t) additional 10% early distribution tax because they already meet an exception to that tax.

If you receive a distribution from your Roth IRA that is **not** a qualified distribution, it can be subject to both income tax and the Code §72(t) additional tax.

To calculate what portion, if any, of your nonqualified distribution is subject to income tax and/or the Code §72(t) additional tax, you must apply the special ordering rules for distributions. These ordering rules determine which contributions (including rollover contributions) and earnings are distributed in a nonqualified distribution and which portion is subject to income tax and/or the Code §72(t) additional tax. The special ordering rules treat distributions as coming:

- First, from regular Roth contributions - *not subject to income tax or the Code §72(t) additional tax.*
- Second, from rollover and conversion contributions (on a first-in-first-out basis) and within each rollover or conversion, in the following order:
  1. the taxable portion (the amount that you previously included in income at the time of the rollover or conversion) – *not subject to income tax but, unless some Code §72(t) exception applies, is subject to the additional 10% early distribution tax* ***if*** *being distributed within 5 years of when these were rolled over or converted.* **Note**: a separate 5-year period applies to each conversion and rollover and is the not the same 5-year period used for determining whether a distribution is qualified.
  2. the nontaxable portion – *not subject to income tax or the Code §72(t) additional tax.*
- Finally, from earnings - *subject to income tax and, unless some Code §72(t) exception applies, to the additional 10% early distribution tax.*

See "Roth IRA Distributions" in *Employee Plans News, Winter 2010* for additional information, including examples, on nonqualified distribution ordering rules.

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