

There is no benefits department standing between a person and an IRA. The individual chooses the financial institution, opens the arrangement, deposits the money, selects the investments, names the beneficiaries, and keeps the records needed for taxes. IRA officially means Individual Retirement Arrangement, although it is commonly called an Individual Retirement Account. The word *individual* is important because an IRA belongs to one person and cannot be jointly owned by a married couple. Each spouse must have a separate IRA under that spouse's own name, even when both accounts are funded from the couple's shared income. The freedom is greater than it is inside many workplace plans, but so is the responsibility: no employer is required to send a reminder, choose an investment, correct an excess contribution, or stop the owner from making an expensive mistake.

An IRA is a tax structure rather than one particular investment product. A bank may offer an IRA containing a savings account or certificate of deposit, while a brokerage firm may offer an IRA capable of holding mutual funds, exchange-traded funds, stocks, bonds, and other permitted investments. Both can legitimately carry the same IRA name while behaving very differently. A bank IRA holding a certificate of deposit may provide a stated interest rate and federal deposit insurance within applicable limits, while a brokerage IRA invested in the market can rise or fall and is not protected against investment losses by deposit insurance. Opening an IRA therefore completes only the legal and administrative step. The owner must still decide what the deposited money will own.

The Traditional IRA and Roth IRA share the same basic purpose but offer different tax agreements. A contribution to a Traditional IRA may be deductible, meaning it may reduce taxable income for the contribution year, while earnings generally grow without annual taxation until they are withdrawn. A Roth IRA contribution is never deductible, but qualified withdrawals can be received free from federal income tax. The Traditional IRA usually sends the income-tax obligation into the future; the Roth IRA usually settles it before the contribution enters. Investment performance does not favor one merely because of its tax label. If both accounts own the same fund, they will experience the same percentage gains, losses, dividends, and expenses, although the amount ultimately available for spending may differ after taxes.

A person generally needs taxable compensation to make a regular IRA contribution. Taxable compensation commonly includes wages, salaries, commissions, tips, bonuses, and net earnings from self-employment. Interest, dividends, pension payments, rental income received as an investor, and investment gains generally do not qualify as compensation merely because they provide money. A person could possess a large savings account yet remain ineligible to make a regular IRA contribution if there is no qualifying compensation and no spousal contribution rule available. The contribution is also limited to the amount of taxable compensation when compensation is lower than the ordinary annual limit. Earning \$4,000 of qualifying compensation does not permit a \$7,500 regular contribution simply because the person has additional cash elsewhere.

The spousal IRA rule protects a married couple when one spouse earns little or no compensation. If the couple files a joint federal tax return and has sufficient combined compensation, each spouse may contribute to a separate IRA even if only one spouse earned the income. “Spousal IRA” does not describe a jointly owned account or a special investment product. It is the ordinary Traditional or Roth IRA of the spouse with little or no compensation, funded under a rule that considers the couple’s combined compensation. If both spouses are eligible for the full limit, each can contribute up to that person’s limit, but neither account may be placed under both names. Ownership, beneficiaries, withdrawals, and tax records remain individual.

For 2026, the combined regular contribution limit for all of one person’s Traditional and Roth IRAs is \$7,500. A person age fifty or older by the end of the year may contribute an additional \$1,100, bringing the potential total to \$8,600, provided there is enough qualifying compensation. The word *combined* prevents someone from placing \$7,500 into a Traditional IRA and another \$7,500 into a Roth IRA for the same year. A person could place \$3,000 into the Traditional IRA and \$4,500 into the Roth IRA, but the total regular contributions would still equal \$7,500. Having IRAs at three different financial institutions does not create three limits. The limit belongs to the person, not to each account. The IRS states the 2026 IRA contribution and catch-up limits and explains that Traditional and Roth contributions share one ceiling.

IRA limits are separate from ordinary 401(k) employee-deferral limits. An eligible person can contribute to a workplace plan and also contribute to an IRA during the same year. Participation in the workplace plan does not automatically prohibit an IRA contribution, although it may affect whether a Traditional IRA contribution can be deducted. Rollovers and Roth conversions also do not use the annual regular-contribution limit. Someone might contribute \$7,500 of new money to an IRA and separately roll a much larger former-employer balance into another IRA. The rollover represents retirement money changing containers, whereas the regular contribution represents new money entering the retirement system for that year.

Regular IRA contributions are generally due by the federal tax-return filing deadline for the contribution year, without counting filing extensions. This creates a period at the beginning of a calendar year when a person might be able to contribute for either the previous year or the current year. The financial institution must be told which year the contribution belongs to. If someone deposits money in March without checking the designation, the institution might record it for the current year when the person intended to finish the previous year’s contribution. That error can leave unused space in one year and create an excess in another. A contribution made after filing the tax return may also require the taxpayer to amend the return or complete additional reporting if the contribution changes a deduction or credit.

Traditional IRA eligibility and Traditional IRA deductibility are two different tests. A person may be permitted to contribute even when the contribution cannot be deducted. When neither spouse is covered by a workplace retirement plan, a Traditional IRA

contribution is generally fully deductible within the ordinary contribution rules. When the contributor or spouse is covered by a workplace plan, income and filing status can reduce or eliminate the deduction. Coverage is often indicated by the retirement-plan box on Form W-2, but the actual workplace arrangement determines whether the person is treated as covered. The question is not merely whether the worker personally contributed to the workplace plan; an employer contribution or benefit accrual may also create active-participant status.

For 2026, a single person or head of household covered by a workplace plan enters the Traditional IRA deduction phaseout when modified adjusted gross income is between \$81,000 and \$91,000. A married couple filing jointly generally uses a range of \$129,000 to \$149,000 when the spouse making the contribution is covered by a workplace plan. If the contributor is not covered but is married to someone who is, the joint range is \$242,000 to \$252,000. Income below the applicable range can permit a full deduction, income inside it produces a partial deduction, and income at or above its upper end eliminates the deduction. Married individuals filing separately who lived together during the year face a much narrower range. These thresholds change over time and should be checked for the contribution year rather than memorized permanently. The IRS publishes the current Traditional IRA deduction ranges and the conditions that activate them.

The income measure used for these rules is modified adjusted gross income, commonly abbreviated MAGI. Adjusted gross income is a tax-return calculation that begins with various types of income and subtracts certain permitted adjustments. Modified adjusted gross income then adds back or changes particular items for the rule being applied. MAGI is not always the salary printed in an employment offer, the amount deposited into a bank account, or even the adjusted gross income displayed on the tax return. Different federal programs can use different modifications. This is why someone close to an IRA phaseout should calculate the applicable MAGI rather than guess from gross salary.

A nondeductible Traditional IRA contribution is made with money that has already been subjected to income tax. Because no deduction was received, that contribution becomes basis, which represents after-tax money inside the Traditional IRA. The basis should not be taxed again when it is eventually distributed, but the earnings connected to it remain tax-deferred and are generally taxable upon withdrawal. Form 8606 records nondeductible contributions and helps calculate the taxable and nontaxable portions of later distributions or conversions. Failing to file and preserve this information can create confusion decades later, especially after accounts have moved among several financial institutions. The custodian knows how much entered the account, but it may not know whether the taxpayer claimed a deduction.

After-tax basis cannot ordinarily be pulled out of a Traditional IRA by pointing to particular dollars and declaring that only those dollars are being withdrawn. The pro-rata rule generally looks across all of the person's Traditional, SEP, and SIMPLE IRA balances when determining how much of a distribution or conversion is taxable. Suppose someone has \$10,000 of nondeductible basis and \$90,000 of untaxed IRA money,

creating a combined balance of \$100,000. A \$10,000 conversion does not ordinarily allow the person to claim that the entire conversion consisted of after-tax basis. Roughly ten percent would represent basis and roughly ninety percent would represent untaxed money under this simplified example. The IRS views the person's applicable IRAs as one combined mixture for this calculation, even if the dollars are held at different companies.

A Roth IRA reverses the timing of the tax benefit. Contributions do not reduce current taxable income, but qualified distributions can remove contributions and investment earnings without federal income tax. Direct Roth IRA contributions are controlled by income limits that do not apply to Roth contributions made through a 401(k). For 2026, the contribution begins phasing out between \$153,000 and \$168,000 of modified adjusted gross income for single filers and heads of household. For married couples filing jointly, the range is \$242,000 to \$252,000. A married person filing separately who lived with a spouse during the year encounters a far more restrictive range of zero to \$10,000. Income below the applicable starting point permits the ordinary contribution limit, income inside the range reduces it, and income at or above the upper figure prevents a direct Roth IRA contribution for that year. The IRS's current IRA guidance contains the 2026 Roth contribution phaseouts.

These income limits govern direct contributions, not Roth conversions. A Roth conversion moves money from a Traditional IRA or another eligible pre-tax retirement arrangement into a Roth IRA. The previously untaxed portion is generally included in taxable income for the conversion year, so a conversion is a decision to pay tax now in exchange for Roth treatment afterward. There is no ordinary income ceiling that prohibits a Roth conversion, but the absence of a ceiling does not make the transaction tax-free. Converting a large balance can increase the person's tax bracket, affect income-based credits and deductions, increase future Medicare premium calculations for someone near or in Medicare, or create a need for additional withholding or estimated tax payments. The amount converted should be selected with an understanding of the entire tax year rather than the IRA balance alone.

The strategy commonly called a backdoor Roth IRA is not a special account recognized under a separate section of the law. It usually describes making a nondeductible contribution to a Traditional IRA and then converting eligible money to a Roth IRA. When the person has little or no other untaxed Traditional, SEP, or SIMPLE IRA money, the taxable conversion amount may be small if little growth occurs before the conversion. When substantial pre-tax IRA balances already exist, the pro-rata rule can make much of the conversion taxable. The strategy also requires correct contribution eligibility, accurate Form 8606 reporting, and attention to transactions occurring during the year. Describing the process as a loophole or a guaranteed tax-free maneuver hides the recordkeeping and aggregation rules that determine its actual result.

Roth IRA withdrawals follow an ordering system. Regular contributions are generally treated as leaving first, conversion and rollover amounts follow, and earnings are treated as leaving last. This is why regular Roth IRA contributions can generally be removed

without income tax or the early-distribution penalty: those dollars were already taxed before entering, and the ordering rules place them at the front of the line. Conversion amounts can carry their own penalty concerns when withdrawn too soon, particularly when the conversion included taxable income. Earnings receive the most protection only after the distribution becomes qualified. The flexibility is real, but the owner must know what portion of the balance represents contributions, conversions, and growth.

A qualified Roth IRA distribution must satisfy two layers. First, the five-tax-year period beginning with the first year for which the owner made a contribution to any Roth IRA must be satisfied. Second, the distribution must occur after age 59½, after disability, after death, or for an eligible first-home distribution within the lifetime limit. The first Roth IRA contribution for a tax year is treated as beginning the clock on January 1 of that year, even if the contribution was physically made later. A separate five-year rule can apply to each conversion when determining whether an early withdrawal of taxable converted money faces the additional penalty. Saying “the Roth has a five-year rule” is therefore accurate but incomplete because the qualification clock and conversion penalty clocks serve different purposes. IRS Publication 590-B explains Roth IRA qualification, ordering, and five-year treatment.

The first-home provision is often misunderstood. Under the applicable rules, up to a \$10,000 lifetime amount may qualify for the first-home exception, and “first-time homebuyer” generally refers to someone who did not hold a present ownership interest in a main home during the applicable two-year period. The exception can help a Roth distribution become qualified when the main five-year requirement is also satisfied, or it may remove the additional penalty from certain otherwise taxable IRA withdrawals. It does not necessarily make every Traditional IRA dollar used for a house income-tax-free. An exception to the ten-percent additional tax and an exclusion from ordinary income tax are different benefits. Money can avoid the penalty while remaining taxable.

Other exceptions may remove the additional early-distribution tax for qualifying higher-education expenses, certain medical costs, health-insurance premiums during unemployment, disability, substantially equal periodic payments, qualified birth or adoption expenses, certain emergencies, domestic-abuse situations, and other circumstances established by law. Each exception has its own definition, dollar limit, documentation requirements, and repayment possibilities. The existence of an exception should never be reduced to the statement that someone can “use an IRA for college” or “take IRA money for an emergency.” The tax treatment depends on which account supplied the money, whether the amount represents contributions or earnings, and whether the conditions were satisfied. Avoiding the additional penalty does not automatically prevent ordinary income taxation.

Traditional IRA owners eventually face required minimum distributions. Under current law, a person subject to the present rules generally begins RMDs at age seventy-three, while a later starting age applies to younger birth groups under the scheduled law. The annual amount is calculated using the previous year-end balance and an IRS

life-expectancy factor. A person with several Traditional IRAs must calculate the requirement for each account but may generally take the combined IRA amount from one or more of those Traditional IRAs. Roth IRA owners do not take lifetime RMDs from their own Roth IRAs, allowing the money to remain invested while the original owner is alive. Beneficiaries of either type can face distribution requirements after the owner's death, so "no Roth RMD" does not mean heirs can necessarily leave an inherited Roth IRA untouched forever.

Traditional IRA withdrawals are generally taxable as ordinary income except to the extent they represent properly documented basis. Roth IRA distributions are governed by their ordering and qualification rules. Both types should issue Form 1099-R when distributions occur, but receiving the form does not by itself explain how much is taxable. The taxpayer may need Form 8606 to report basis, Roth distributions, or conversions. Financial institutions report transactions using the records available to them; they do not always know the taxpayer's complete history across other accounts. Tax reporting follows the person, even when several custodians are involved.

Unlike a 401(k), an IRA cannot offer an ordinary participant loan. Borrowing directly from the IRA, pledging it as security for a personal loan, selling personal property to it, purchasing property from it for personal use, or conducting certain transactions with close family members can create a prohibited transaction. The consequences can be severe because improper use may cause the account to lose its IRA status and be treated as distributed. Self-directed IRAs, which permit a wider range of assets such as certain real estate or private investments, do not suspend these rules. The owner cannot place a vacation property inside an IRA and personally use it merely because the IRA's name appears on the deed. The IRS warns that borrowing from an IRA and improperly dealing with its assets can be prohibited transactions.

Investment freedom also has statutory boundaries. IRAs generally cannot invest in life insurance or collectibles such as artwork, antiques, many coins, gems, rugs, alcoholic beverages, and certain other personal property, although particular precious metals can qualify when strict requirements are met. Greater danger often comes from assets that are technically permitted but difficult to value, expensive to hold, impossible to sell quickly, or promoted through fraud. A custodian's willingness to process an investment does not mean the IRS, Securities and Exchange Commission, or custodian has approved its quality. "Self-directed" means the owner directs the decisions; it does not mean the investment has been examined and declared safe.

Beneficiary designations determine where the IRA goes after the owner's death. A spouse beneficiary may have options unavailable to other beneficiaries, including the possibility of treating the IRA as the spouse's own when the conditions are met. Many nonspouse beneficiaries are generally required to empty an inherited IRA within a ten-year period, although eligible designated beneficiaries and particular circumstances can produce different schedules. Traditional inherited distributions may carry income tax, while qualified Roth distributions are generally tax-free even though withdrawal

deadlines can still apply. The beneficiary form should be reviewed after marriage, divorce, birth, death, and other major family changes. A will alone may not repair an outdated IRA designation.

An IRA provides something a workplace plan cannot fully provide: retirement space that remains attached to the person rather than to one employer. That independence allows wider investment choice, separate beneficiary planning, continued ownership through career changes, and direct control over costs. It also removes the guardrails created by a limited workplace menu and a payroll system. The owner has to know which year a contribution belongs to, whether income permits it, whether a deduction is available, how the money is invested, and what a distribution will trigger. The letters are small, but the responsibility carried inside them is entirely personal.