



Taking Distributions From Roth IRAs

It is important to understand that there are certain rules relating to when a distribution is received from a Roth IRA. If it is not a qualified distribution (see chart below), the earnings portion may be taxable. There is a set order in which contributions and earnings are considered to be distributed from a Roth IRA. This includes conversion and rollover contributions from employer plans.



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Order of distribution

1. Regular contributions

These amounts are contributed after tax. Thus for federal income tax purposes, distributions of annual Roth IRA contributions are free of federal income tax.

2. Conversion contributions

A converted amount has already paid income tax on the amount converted and is treated on a first in first out basis. However, if the assets are withdrawn before the 5-year period, they are subject to the 10% premature distribution penalty tax unless an exception applies (see chart below).

5-year period starts on January 1 of year conversion was made and is determined separately for each conversion contribution.

3. Earnings

The 5-year period used for determining whether an amount is a “qualified distribution” starts with the year that the first valid contribution was made to the Roth IRA. A qualified distribution of earnings is not subject to federal income tax nor penalty. In contrast, non qualified distributions made before the end of the 5-year period are taxable, to the extent earnings are withdrawn.

5-year period for earnings starts on January 1 of the year Roth IRA contribution was made.

Distribution of Roth IRA Earnings

Various scenarios when making distributions from a Roth IRA.

Distribution Reason	Withdrawn Within 5 Years		Withdrawn After 5 Years	
	Earnings Taxable	10% Penalty	Earnings Taxable	10% Penalty
After Age 59½	Yes	No	No	No
Before age 59½ (unless exceptions #1-7 listed below apply)	Yes	Yes	Yes	Yes
1. Death	Yes	No	No	No
2. Disability	Yes	No	No	No
3. First-time homebuyer (\$10,000 limit)	Yes	No	No	No
4. Qualified higher education expenses	Yes	No	Yes	No
5. Substantially equal periodic payments	Yes	No	Yes	No
6. Health insurance premiums of certain unemployed people	Yes	No	Yes	No
7. Medical expenses above 7½% of AGI	Yes	No	Yes	No

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You should always consult your own legal or tax professional for information concerning your individual situation. IRA owners are encouraged to seek the advice of an attorney or tax advisor that specializes in this area.