Traditional and Roth Individual Retirement Accounts (IRAs): A Primer

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Summary

In response to concerns over the adequacy of retirement savings, Congress has created incentives to encourage individuals to save for retirement through a variety of retirement plans. Some retirement plans are employer-sponsored, such as 401(k) plans, and others are established by individual employees, such as Individual Retirement Accounts (IRAs).

This report describes the primary features of two common retirement savings accounts that are available to certain individuals—traditional and Roth IRAs. Although the accounts have many features in common, they differ in some important aspects. Both traditional and Roth IRAs offer tax incentives to encourage individuals to save for retirement. Contributions to traditional IRAs may be tax deductible for taxpayers who (1) are not covered by a retirement plan at their place of employment or (2) have income below specified limits. Contributions to Roth IRAs are not tax deductible and eligibility is limited to those with incomes under specified limits.

The tax treatment of distributions from traditional and Roth IRAs differs. Distributions from traditional IRAs are generally included in taxable income, whereas certain distributions from Roth IRAs are not included in taxable income. Some distributions may be subject to an additional 10% tax penalty, unless the distribution is for a reason specified in the Internal Revenue Code (e.g., distributions from IRAs after the individual is aged 59½ or older are not subject to the early withdrawal penalty).

Individuals may roll over eligible distributions from other retirement accounts (such as an account balance from a 401(k) plan upon leaving an employer) into IRAs. Rollovers preserve retirement savings by allowing investment earnings on the funds in the retirement accounts to accrue on a tax-deferred basis, in the case of traditional IRAs, or a tax-free basis, in the case of Roth IRAs.

The Retirement Savings Contribution Credit (also known as the Saver's Credit) is a nonrefundable tax credit of up to $1,000 ($2,000 if married filing jointly). It was authorized in 2001 to encourage retirement savings among individuals with income under specified limits.

This report explains IRAs' eligibility requirements, contribution limits, tax deductibility of contributions, and withdrawal rules, and it provides data on the accounts' holdings. It also describes the Saver's Credit and provisions enacted after the Gulf of Mexico hurricanes in 2005, the Midwestern storms in 2008, the hurricanes in 2012 and 2017, the California wildfires in 2017, certain other federally declared disasters occurring on or after January 1, 2018, and the Coronavirus Disease 2019 (COVID-19) pandemic to exempt distributions to those affected from the 10% early withdrawal penalty.

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Introduction

Individual Retirement Accounts (IRAs) are tax-advantaged accounts that individuals (or married couples) can establish to accumulate funds for retirement. Depending on the type of IRA, contributions may be made on a pretax or post-tax basis, and investment earnings are either tax-deferred or tax-free.[1]

IRAs were first authorized by the Employee Retirement Income Security Act of 1974 (ERISA; P.L. 93-406). IRAs were originally limited to workers without pension coverage, but the Economic Recovery Act of 1981 (P.L. 97-34) made all workers and spouses eligible for IRAs. The Tax Reform Act of 1986 (P.L. 99-514) limited the eligibility for tax-deductible contributions to individuals whose employers do not sponsor plans and to those whose employers sponsor plans but who have earnings below certain thresholds. The Taxpayer Relief Act of 1997 (P.L. 105-34) allowed for certain penalty-free withdrawals and authorized the Roth IRA, which provides tax-free growth from after-tax contributions.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) significantly affected the contribution limits in these plans in three ways: it (1) increased the limits, (2) indexed the limits to inflation, and (3) allowed for individuals aged 50 and older to make additional "catch-up" contributions. Among other provisions, the Pension Protection Act of 2006 (PPA; P.L. 109-280) made permanent the indexing of contribution limits to inflation, allowed taxpayers to direct the Internal Revenue Service (IRS) to deposit tax refunds directly into an IRA, and temporarily allowed for certain tax-free distributions for charitable contributions (which was later made permanent by P.L. 114-113).[2]

The Setting Every Community up for Retirement Enhancement Act of 2019 (SECURE Act), enacted as Division O of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), included multiple provisions related to IRAs. The SECURE Act

- repealed the maximum age at which individuals can contribute to traditional IRAs;
- increased the age at which required minimum distributions (RMDs) from traditional IRAs must begin;
- treated certain nontuition fellowship and stipend payments as compensation for IRA contribution purposes;
- treated tax-exempt "difficulty of care" payments to home healthcare providers as compensation for nondeductible IRA contribution limit purposes;
- allowed penalty-free early withdrawals for qualifying birth and adoption purposes; and
- modified distribution rules for inherited IRAs.

This report describes the two types of IRAs that individual workers can establish: traditional IRAs and Roth IRAs.[3] It describes the rules regarding eligibility, contributions, and withdrawals. It also describes a tax credit for retirement savings contributions. An **Appendix** describes the

[1] For more information on the tax treatment of retirement savings, including Individual Retirement Accounts (IRAs), see U.S. Congress, Joint Committee on Taxation, *Present Law and Background Relating to the Tax Treatment of Retirement Savings*, prepared by Joint Committee on Taxation, 112th Cong., 2nd sess., April 13, 2012, JCX-32-12.

[2] See also 26 U.S.C. §408 for traditional IRAs and 26 U.S.C. §408A for Roth IRAs.

[3] There are also two types of IRA-based retirement plans available to small employers: Simplified Employee Pensions (SEP-IRA) and Savings Incentive Match Plans for Employees (SIMPLE-IRA). These are not discussed in this report.

relief provided to those affected by the 2005 Gulf of Mexico hurricanes; the 2008 Midwestern floods; Hurricane Sandy in 2012; Hurricanes Harvey, Irma, and Maria in 2017; the California wildfires in 2017; certain other federally declared disasters taking place on or after January 1, 2018; and the Coronavirus Disease 2019 (COVID-19) pandemic.

Traditional IRAs

Traditional IRAs are funded by workers' contributions, which may be tax deductible. The contributions accrue investment earnings in an account, and these earnings are used as a source of income in retirement. Among the benefits of traditional IRAs, two are (1) pretax contributions, which provide larger bases for accumulating investment earnings and, thus, may provide larger account balances at retirement than if the money had been placed in taxable accounts; and (2) taxes are paid when funds are distributed. Because income tax rates in retirement are often lower than during working life, traditional IRA holders are likely to pay less in taxes when contributions are withdrawn than when the income was earned.

Eligibility

Individuals who receive taxable compensation can set up and contribute to IRAs.[4] Examples of compensation include wages, salaries, tips, commissions, self-employment income, nontaxable combat pay, and alimony (which is treated as compensation for IRA purposes).[5] Compensation also includes nontuition fellowship and stipend payments (i.e., payments to individuals that are used in the pursuit of graduate or postdoctoral study).[6] Tax-exempt "difficulty of care" payments to home healthcare workers (i.e., payments for the additional care needed for certain qualified foster individuals) are treated as compensation for nondeductible IRA contribution limit purposes.[7] Individuals who receive income only from noncompensation sources cannot contribute to IRAs.

Contributions

Individuals may contribute either their gross compensation or the contribution limit, whichever is lower. In 2021, the annual contribution limit is $6,000. Since 2009, the contribution limit has been subject to cost-of-living adjustments.[8] Individuals aged 50 and older may make additional annual $1,000 catch-up contributions. For households that file a joint return, spouses may contribute an amount equal to the couple's total compensation (reduced by the spouse's IRA contributions) or the contribution limit ($6,000 each, if younger than the age of 50, and $7,000 each, if aged 50 and older), whichever is lower. Contributions that exceed the contribution limit and are not withdrawn by the due date for that year's tax return are considered excess

[4] The SECURE Act (Division O of P.L. 116-94) repealed the maximum age at which individuals may contribute to IRAs. Prior to the SECURE Act, individuals were not allowed to contribute to traditional IRAs after reaching age 70½.

[5] See Internal Revenue Service (IRS), *Tax Topic Number 451 - Individual Retirement Arrangements (IRAs)*, at https://www.irs.gov/taxtopics/tc451.

[6] Section 106 of the SECURE Act (Division O of P.L. 116-94) added this provision.

[7] Section 116 of the SECURE Act (Division O of P.L. 116-94) added this provision. Individuals with "difficulty of care" payments may increase their nondeductible IRA contribution limit (in 2020, this limit is the individual's taxable income, up to $6,000 [$7,000 for individuals aged 50 and older]) by some or all of the amount of these payments. See IRS, Publication 590-A, at https://www.irs.gov/publications/p590a#en_US_2019_publink100031635. These payments do not affect deductibility.

[8] 26 U.S.C. §415 requires the adjustments be made with procedures used to adjust Social Security benefit amounts. For more information on Social Security adjustments, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*.

contributions and are subject to a 6% "excess contribution" tax. Contributions made between January 1 and April 15 may be designated for either the current year or the previous year.

Because IRAs were intended for workers without an employer-sponsored pension to save for retirement, contributions to an IRA may only come from work income, such as wages and tips. The following noncompensation sources of income cannot be used for IRA contributions:

- earnings from property, interest, or dividends;
- pension or annuity income;
- deferred compensation;
- income from partnerships for which an individual does not provide services that are a material income-producing factor; and
- foreign earned income.

Investment Options

IRAs can be set up through many financial institutions, such as banks, credit unions, mutual funds, life insurance companies, or stock brokerages. These financial institutions offer an array of investment choices. Individuals can transfer their accounts from one financial institution to another at will.

Several transactions could result in additional taxes or the loss of IRA status. These transactions include borrowing from IRAs; using IRAs as collateral for loans; selling property to IRAs; and investing in collectibles like artwork, antiques, metals, gems, stamps, alcoholic beverages, and most coins.[9]

Deductibility of Contributions

IRA contributions may be non-tax-deductible, partially tax-deductible, or fully tax-deductible, depending on whether the individual or spouse is covered by a pension plan at work and their level of adjusted gross income (AGI).[10] Individuals are covered by a retirement plan if (1) the individuals or their employers have made contributions to a defined contribution pension plan or (2) the individuals are eligible for a defined benefit pension plan (even if they refuse participation).

For individuals and households *not* covered by a retirement plan at work, **Table 1** outlines the income levels at which they may deduct all, some, or none of their IRA contributions, depending on the spouse's pension coverage and the household's AGI. Individuals without employer-sponsored pensions and, if married, whose spouse also does not have pension coverage, may deduct up to the contribution limit from their income taxes regardless of their AGI.

For individuals and households who are covered by a retirement plan at work, **Table 2** outlines the income levels at which they may deduct all, some, or none of their IRA contributions, depending on the individual's or household's AGI.

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[9] Gold, silver, and platinum coins issued by the U.S. Treasury, and gold, silver, palladium, and platinum bullion are permissible.

[10] IRS, "Definition of Adjusted Gross Income," at https://www.irs.gov/e-file-providers/definition-of-adjusted-gross-income.

Individuals may still contribute to IRAs up to the contribution limit even if the contribution is nondeductible. Nondeductible contributions come from post-tax income, not pretax income.[11] Only contributions greater than the contribution limits are considered excess contributions. Worksheets for computing partial deductions are included in "IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs)."[12]

Table 1. Deductibility of IRA Contributions for Individuals Not Covered by a Retirement Plan at Work for 2020 and 2021

Filing Status	2020 Adjusted Gross Income	2021 Adjusted Gross Income	Deduction Allowed
Single, head of household, qualifying widow(er), or married filing jointly or separately with a spouse who is not covered by a plan at work	Any amount	Any amount	Full deduction
Married filing jointly with a spouse who is covered by a plan at work	$196,000 or less	$198,000 or less	full deduction
	More than $196,000 but less than $206,000	More than $198,000 but less than $208,000	Partial deduction
	$206,000 or more	$208,000 or more	No deduction
Married filing separately with a spouse who is covered by a plan at work	Less than $10,000	Less than $10,000	Partial deduction
	$10,000 or more	$10,000 or more	No deduction

Sources: IRS Publication 590-A, at http://www.irs.gov/publications/p590a/ and *2021 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2020-79, at https://www.irs.gov/pub/irs-drop/n-20-79.pdf.

Table 2. Deductibility of IRA Contributions for Individuals Covered by a Retirement Plan at Work for 2020 and 2021

Filing Status	2020 Adjusted Gross Income	2021 Adjusted Gross Income	Deduction Allowed
Single or head of household	$65,000 or less	$66,000 or less	Full deduction
	More than $65,000 but less than $75,000	More than $66,000 but less than $76,000	Partial deduction
	$75,000 or more	$76,000 or more	No deduction
Married filing jointly or qualifying widow(er)	$104,000 or less	$105,000 or less	Full deduction
	More than $104,000 but less than $124,000	More than $105,000 but less than $125,000	Partial deduction
	$124,000 or more	$125,000 or more	No deduction
Married filing separately	Less than $10,000	Less than $10,000	Partial deduction
	$10,000 or more	$10,000 or more	No deduction

[11] One advantage to placing post-tax income in traditional IRAs is that investment earnings on nondeductible contributions are not taxed until distributed.

[12] The publication is available on the IRS website at http://www.irs.gov/publications/p590a.

Sources: IRS Publication 590-A, at http://www.irs.gov/publications/p590a/ and *2021 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2020-79, at https://www.irs.gov/pub/irs-drop/n-20-79.pdf.

Withdrawals

Withdrawals from IRAs are subject to income tax in the year that they are received. Early distributions are withdrawals made before the age of 59½. Early distributions may be subject to an additional 10% penalty.

To ensure that IRAs are used for retirement income and not for bequests, IRA holders must begin making withdrawals by April 1 of the year after reaching the age of 72 (i.e., the required beginning date).[13] The minimum amount that must be withdrawn (i.e., the required minimum distribution, or RMD) for each year is calculated by dividing the account balance on December 31 of the year preceding the distribution by the IRA owner's life expectancy as found in IRS Publication 590-B.[14] Although females live longer on average than males, the IRS does not separate life expectancy tables for males and females for this purpose.[15] RMDs must be received by December 31 of each year. Failure to take the RMD results in a 50% excise tax on the amount that was required to have been distributed. Congress suspended the RMD for 2009 and 2020.[16]

Beginning in 2007, distributions from IRAs after the age of 70½ could be made directly to qualified charities and excluded from gross income. This provision for Qualified Charitable Distributions was made permanent in P.L. 114-113.[17]

Early Distributions

Early distributions are withdrawals made before the age of 59½. Early distributions—just like distributions after the age of 59½—are subject to federal income tax. To discourage the use of IRA funds for preretirement uses, most early distributions are subject to a 10% tax penalty.[18] The early withdrawal penalty does not apply if the IRA owner is younger than age 59½ and the distributions

- occur if the individual is a beneficiary of a deceased IRA owner;
- occur if the individual is disabled;
- are in substantially equal payments over the account holder's life expectancy;

[13] Section 114 of the SECURE Act (Division O of P.L. 116-94) modified the age at which individuals must begin taking RMDs from 70½ to 72. The provision applies to account owners who turn age 70½ on or after January 1, 2020.

[14] *Life expectancy* is calculated differently depending on whether the account holder (1) is single and an IRA beneficiary, (2) has a spouse who is more than 10 years younger, (3) has a spouse who is not more than 10 years younger, (4) whose spouse is not the sole beneficiary, or (5) is unmarried.

[15] See, for example, the Social Security Actuarial Life Table, at https://www.ssa.gov/oact/STATS/table4c6.html. The Supreme Court ruled in *Arizona Governing Comm. vs. Norris*, 463 U.S. 1073 (1983), that employer-provided pension plans must use unisex tables in calculating monthly annuity benefits. Citing this ruling, the IRS constructs its own unisex life expectancy tables. See 26 U.S.C. §417(e)(3)(A)(ii).

[16] For more information on the 2009 RMD suspension, see CRS Report R40192, *Early Withdrawals and Required Minimum Distributions in Retirement Accounts: Issues for Congress*. For more information on the 2020 RMD suspension, see CRS In Focus IF11482, *Retirement and Pension Provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* and CRS Insight IN11441, *Internal Revenue Service (IRS) Guidance for Coronavirus-Related Distributions, Plan Loans, and Required Minimum Distribution (RMD) Rollovers*.

[17] See CRS In Focus IF11377, *Qualified Charitable Distributions from Individual Retirement Accounts*. The SECURE Act did not modify the age at which qualified charitable distributions can be made.

[18] See 26 U.S.C. §72(t).

- are received after separation from employment after the age of 55;
- are for unreimbursed medical expenses in excess of 7.5% of AGI (10% if under age 65);
- are for medical insurance premiums in the case of unemployment;
- are used for higher education expenses;
- are used to build, buy, or rebuild a first home up to a $10,000 withdrawal limit;
- are used for expenses related to the qualified birth or adoption of a child (up to a $5,000 withdrawal limit taken within one year following the event);[19] or
- occur if the individual is a reservist called to active duty after September 11, 2001.

In response to various disasters and the COVID-19 pandemic, Congress has temporarily exempted distributions to those affected from the 10% early withdrawal penalty. For example, in response to the pandemic, Congress permitted qualified individuals to take penalty-free distributions of up to $100,000 from retirement accounts from January 1, 2020, and before December 31, 2020 (P.L. 116-136). Details of these various relief provisions—including definitions of qualifying events and individuals, deadlines, and income inclusion and recontribution rules—are detailed in the **Appendix**.

Although early withdrawals from IRAs are permitted without reason, individuals will be subject to the 10% tax penalty unless they meet one of the conditions above. There are no other general "hardship" exceptions for penalty-free distributions from IRAs.

Rollovers

Rollovers are transfers of assets from one retirement plan to another upon separation from the original employer. Rollovers are not subject to the 59½ rule, the 10% penalty, or the contribution limit. Rollovers can come from traditional IRAs, employers' qualified retirement plans (e.g., 401(k) plans), deferred compensation plans of state or local governments (Section 457 plans), tax-sheltered annuities (Section 403(b) plans), or the Thrift Savings Plan for federal employees.

Rollovers can be either direct trustee-to-trustee transfers or issued directly to individuals who then deposit the rollovers into traditional IRAs.[20] Individuals have 60 days from the date of the distribution to make rollover contributions. Rollovers not completed within 60 days are considered taxable distributions and may be subject to the 10% early withdrawal penalty. In addition, in cases where individuals directly receive a rollover, 20% of the rollover is withheld for tax purposes. Direct trustee-to-trustee transfers are not subject to withholding taxes. In cases where individuals directly receive a rollover, they must have an amount equal to the 20% withheld available from other sources to place in the new IRA. If the entire distribution is rolled over within 60 days, the amount withheld is applied to individuals' income taxes paid for the year.

[19] Section 113 of the SECURE Act (Division O of P.L. 116-94) added this provision. This provision is effective for distributions made after December 31, 2019.

[20] A *trustee-to-trustee transfer* is a transfer of funds made directly between two financial institutions. The individual does not take possession of the funds at any point.

Rollovers Limited to One per Year

A January 2014 U.S. Tax Court decision required that, in certain circumstances, individuals are limited to a total of one rollover per year for their IRAs.[21] Rollovers subject to this rule are those between two IRAs in which an individual receives funds from an IRA and deposits the funds into a different IRA within 60 days. The one-rollover-per-year limit applies to rollovers between two traditional IRAs or two Roth IRAs. It does not apply to rollovers from a traditional IRA to a Roth IRA (i.e., a *conversion*). The limitation does not apply to trustee-to-trustee transfers (directly from one financial institution to another) or rollovers from qualified pension plans (such as from 401(k) plans).

Distributions After Traditional IRA Owner's Death

When the owner of an IRA dies, ownership passes to the account's designated beneficiary or, if no beneficiary has been named, to the decedent's estate. Federal law has different distribution requirements depending on whether the new owner is a

- designated spouse beneficiary,
- designated nonspouse beneficiary,
- eligible designated beneficiary, or
- nondesignated or estate beneficiary.[22]

Some distribution rules depend on whether the IRA owner died prior to the required beginning date, the date on which distributions from the account must begin. This is April 1 of the year following the year in which the IRA owner reaches the age of 72.

Designated Spouse Beneficiaries

A designated spouse beneficiary is allowed to (1) become the new account owner; (2) roll over the account to the spouse's own traditional or Roth IRA or qualified employer plan, such as a 401(k), 403(a), 403(b), or 457(b) plan; or (3) be treated as a beneficiary rather than account owner (in this case, see the rules for eligible designated beneficiaries below). A nonspouse beneficiary cannot take ownership of an inherited account. Instead, the account becomes an inherited IRA designated for the nonspouse beneficiary in the name of the deceased account owner.

A spouse who takes ownership of an inherited traditional IRA must determine the RMD using his or her own life expectancy. A spouse who takes ownership of an inherited Roth IRA (rather than becoming a beneficiary) does not have to take an RMD. A spouse who is the sole beneficiary and chooses to be treated as beneficiary (rather than as owner) may postpone distributions until the original owner would have reached age 72. This rule applies to both traditional and Roth IRAs.

[21] See *Bobrow v. Commissioner*, T.C. Memo. 2014-21 (United States Tax Court 2014), at https://www.ustaxcourt.gov/UstcInOp/OpinionViewer.aspx?ID=377. The court case addressed a situation in which an individual and his spouse used the 60-day rollover period to continuously move amounts from one IRA to another, thereby gaining access to funds for an extended period of time. Prior to this decision, the IRS applied the one-rollover-per-year on an IRA-by-IRA basis.

[22] Section 401 of SECURE Act (Division O of P.L. 116-94) modified distribution rules for designated beneficiaries of account owners who die after December 31, 2019.

Designated Nonspouse Beneficiaries

Under the SECURE Act, a designated nonspouse beneficiary of an account owner who dies after December 31, 2019, must distribute the entire account balance by the end of the 10th calendar year following the account owner's year of death (the "10-year rule"), regardless of whether the original account owner dies before or after the required beginning date. Beneficiaries may choose the frequency and timing of distributions so long as the account is depleted within the 10-year period.

Eligible Designated Beneficiaries

The SECURE Act allows for exceptions to the 10-year rule for an eligible designated beneficiary, which include (1) a surviving spouse, (2) the account owner's child who has not reached the age of majority, (3) an individual who is disabled, (4) a chronically ill individual, and (5) an individual who is not more than 10 years younger than the account owner. These eligible designated beneficiaries may generally take distributions over their remaining life expectancy rather than adhere to the 10-year rule. A minor child of an account owner who is a beneficiary may calculate distributions based on his or her remaining life expectancy until reaching the age of majority (age 18 in most states), at which point the remaining account balance must be distributed within 10 years.

Nondesignated or Estate Beneficiaries

If the account owner dies before the required beginning date and (1) does not designate a beneficiary or (2) designates a trust as beneficiary, the account balance must be distributed within five years ("the 5-year rule"). Nondesignated and estate beneficiaries of a Roth IRA must take distributions as if the account owner died before the required beginning date (i.e., within five years). If the account owner dies after the required beginning date, the account balance must be distributed at the same rate or faster than the original account owner was taking distributions (i.e., the distribution period is based on the deceased account owner's life expectancy as of the year of death; life expectancy is reduced by one year for each subsequent RMD). The SECURE Act did not change distribution rules for nondesignated beneficiaries.

The distribution rules are summarized in **Table 3**. Distributions from inherited traditional IRAs are included in taxable income but are not subject to the 10% early withdrawal penalty. An individual who fails to take an RMD will generally incur a 50% excise tax of the amount that was required to have been withdrawn.

In some cases, IRAs have beneficiaries' distributions requirements that are more stringent than those summarized in **Table 3**. For example, an IRA's plan documents could require that a designated spouse or designated nonspouse beneficiary distribute all assets in the IRA by the end of the fifth year of the year following the IRA owner's death. In such a case, the beneficiary would not have the option to take distributions over a longer period of time. Unless the IRA's plan documents specify otherwise, it is possible to take distributions faster than required in **Table 3**. For example, a beneficiary may elect to distribute all assets in a single year (i.e., a lump sum distribution). In such a case, the entire amount distributed is included in taxable income for that year.

Table 3. Inherited IRA Distribution Rules

	Owner Dies Before Required Beginning Date	Owner Dies on or After Required Beginning Date
Designated Spouse Beneficiary	Treat as own, does not have to take any distribution until the age of 72, but is subject to the 59½ rule, or Keep in decedent's name and take distributions based on own life expectancy. Distributions do not have to begin until decedent would have turned 72.	Treat as own, does not have to take any distribution until the age of 72, but is subject to the 59½ rule, or Keep in decedent's name and take distributions based on own life expectancy.
Designated Nonspouse Beneficiary	Take distributions within 10 years.	
Eligible Designated Beneficiaries[a]	Take distributions over the beneficiary's remaining life expectancy.	
Nondesignated or Estate Beneficiaries	Must distribute all IRA assets by the end of the fifth year of the year following the IRA owner's death.	Must distribute IRA assets at least as quickly as the owner had been taking them (i.e., take a yearly distribution based on the owner's age as of birthday in the year of death, reduced by one for each year after the year of death).

Sources: 26 U.S.C. §401(a)(9) and P.L. 116-94.

Notes: The required beginning date is the date on which distributions from the account must begin. It is April 1 of the year following the year in which the owner of an IRA reaches the age of 72.

a. An eligible designated beneficiary includes a surviving spouse of the account owner (options for a spouse are described separately in the table); the account owner's child who has not reached the age of majority (minor child distributions are calculated based on the child's remaining life expectancy through the year that the child reaches the age of majority, after which the 10-year rule applies); an individual who is disabled, a chronically ill individual, and an individual who is not more than 10 years younger than the account owner.

Roth IRAs

Roth IRAs were authorized by the Taxpayer Relief Act of 1997 (P.L. 105-34). The key differences between traditional and Roth IRAs are that contributions to Roth IRAs are made with after-tax funds and qualified distributions are not included in taxable income; investment earnings accrue free of taxes.[23]

Eligibility and Contribution Limits

In contrast to traditional IRAs, Roth IRAs have income limits for eligibility. **Table 4** lists the AGIs at which individuals may make the maximum contribution and the ranges in which this contribution limit is reduced.[24] For example, a 40-year-old single taxpayer with income of $90,000 may contribute $6,000 in 2021. A similar taxpayer making $130,000 would be subject to

[23] Roth IRAs are named for former Senator William Roth.

[24] If warranted, the income limits are increased for cost-of-living adjustments. See *2020 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2019-59, at https://www.irs.gov/pub/irs-drop/n-19-59.pdf; and *2021 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2020-79, at https://www.irs.gov/pub/irs-drop/n-20-79.pdf.

a reduced contribution limit, whereas a taxpayer with income of $145,000 would be ineligible to contribute to a Roth IRA.

Like traditional IRAs, Roth IRA contributions must come from earned income, excess contributions are subject to the 6% tax, and contributions made between January 1 and April 15 may be designated for either the current year or the previous year.

Table 4. Roth IRA Eligibility and Annual Contribution Limits for 2020 and 2021

Filing Status	2020 Modified Adjusted Gross Income (AGI)	2020 Contribution Limits	2021 Modified Adjusted Gross Income (AGI)	2021 Contribution Limits
Single, head of household, married filing separately (and did not live with spouse at any time during the year)	Less than $124,000	$6,000 ($7,000 if 50 years or older) or AGI, whichever is smaller	Less than $125,000	$6,000 ($7,000 if 50 years or older) or AGI, whichever is smaller
	At least $124,000 but less than $139,000	Reduced contribution limit	At least $125,000 but less than $140,000	Reduced contribution limit
	$139,000 or more	Ineligible to contribute	$140,000 or more	Ineligible to contribute
Married filing separately and lived with spouse at any time during the year	Less than $10,000	Reduced contribution limit	Less than $10,000	Reduced contribution limit
	$10,000 or more	Ineligible to contribute	$10,000 or more	Ineligible to contribute
Married filing jointly, qualifying widow(er)	Less than $196,000	$6,000 ($7,000 each if 50 and older) or AGI, whichever is smaller	Less than $198,000	$6,000 ($7,000 each if 50 and older) or AGI, whichever is smaller
	At least $196,000 but less than $206,000	Reduced contribution limit	At least $198,000 but less than $208,000	Reduced contribution limit
	$206,000 or more	Ineligible to contribute	$208,000 or more	Ineligible to contribute

Sources: IRS Publication 590-A, available at http://www.irs.gov/publications/p590a/ and IRS, "Amount of Roth IRA Contributions That You Can Make for 2021," at https://www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2021.

Notes: Individuals aged 50 and older can make additional $1,000 catch-up contributions. The adjusted gross income (AGI) limit for eligibility has been adjusted for inflation since 2007; beginning in 2009, the traditional and Roth IRA contribution limit has also been adjusted for inflation. A worksheet for computing reduced Roth IRA contribution limits is provided in IRS Publication 590-A.

Investment Options

Roth IRAs must be designated as such when they are set up. As with traditional IRAs, they can be set up through many financial institutions. Transactions prohibited within traditional IRAs are also prohibited within Roth IRAs.

Conversions and Rollovers

Individuals may convert amounts from traditional IRAs, SEP-IRAs, or SIMPLE-IRAs to Roth IRAs.[25] Since 2008, individuals have been able to roll over distributions directly from qualified retirement plans to Roth IRAs. The amount of the conversion must be included in taxable income. Conversions can be a trustee-to-trustee transfer, a same trustee transfer by redesignating the IRA as a Roth IRA, or a rollover directly to the account holder. Inherited IRAs cannot be converted.

Contributions (not rollovers or conversions) made to a traditional or Roth IRA can be recharacterized as having been made to the other type of IRA. However, conversions and rollovers to a Roth IRA made during or after 2018 cannot be recharacterized to a traditional IRA.[26]

Rollover rules that apply to traditional IRAs, including completing a rollover within 60 days, also apply to Roth IRAs. In addition, withdrawals from a converted IRA prior to five years from the beginning of the year of conversion are nonqualified distributions and are subject to a 10% penalty (see the "Nonqualified Distributions" section of this report).

Tax-free withdrawals from one Roth IRA transferred to another Roth IRA are allowed if completed within 60 days. Rollovers from Roth IRAs to other types of IRAs or to employer-sponsored retirement plans are not allowed.

Withdrawals

The three types of Roth IRA distributions are (1) returns of regular contributions, (2) qualified distributions, and (3) nonqualified distributions. Returns of regular contributions and qualified distributions are not included as part of taxable income.

Return of Regular Contributions

Roth IRA distributions that are a return of regular contributions, which are withdrawals of original contributions, are neither included in taxable income nor subject to the 10% penalty.

Qualified Distributions

Qualified distributions, which include earnings on contributions, must satisfy both of the following:

- they are made after the five-year period beginning with the first taxable year for which a Roth IRA contribution was made, and

[25] Simplified Employee Pensions (SEP-IRA) and Savings Incentive Match Plans for Employees (SIMPLE-IRA) are employer-sponsored IRAs available to small employers. SIMPLE-IRAs may be rolled over after two years. Prior to January 1, 2010, only individuals with income under specified thresholds were eligible to make conversions from traditional to Roth IRAs. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA; P.L. 109-222) eliminated the income thresholds.

[26] A provision in P.L. 115-97 (a budget reconciliation bill that was originally called the Tax Cuts and Jobs Act) repealed a special rule that allowed conversions and rollovers to be recharacterized. Prior to the repeal of the special rule, an individual could have rolled amounts from a traditional IRA to a Roth IRA and then, prior to the due date of the individual's tax return, could have transferred the assets back to a traditional IRA. In certain circumstances, this could have a beneficial effect on an individual's taxable income.

- they are made on or after the age of 59½; because of disability; to a beneficiary or estate after death; or to purchase, build, or rebuild a first home up to a $10,000 lifetime limit.[27]

Nonqualified Distributions

Distributions that are neither returns of regular contributions nor qualified distributions are considered nonqualified distributions. A 10% penalty applies to nonqualified distributions unless one of the exceptions in 26 U.S.C. §72(t) applies. The exceptions are identical to those previously listed for early distributions from traditional IRAs. Although individuals might have several Roth IRAs from which withdrawals can be made, for tax purposes nonqualified distributions are assumed to be made in the following order:

1. the return of regular contributions,
2. conversion contributions on a first-in-first-out basis, and
3. earnings on contributions.

The taxable portion of any nonqualified distribution (e.g., earnings on contributions) may be included in taxable income. A worksheet is available in IRS Publication 590-B to determine the taxable portion of nonqualified distributions.

Distributions After Roth IRA Owner's Death

The Roth IRA's original owner does not have to take an RMD (and therefore, has no required beginning date). Following the initial account owner's death, the Roth IRA beneficiary must take an RMD using the same rules that apply to traditional IRAs as if the account owner had died before the required beginning date.

Distributions from inherited Roth IRAs are generally free of income tax. The beneficiary may be subject to taxes if the Roth IRA owner dies before the end of (1) the five-year period beginning with the first taxable year for which a contribution was made to a Roth IRA or (2) the five-year period starting with the year of a conversion from a traditional IRA to a Roth IRA. The distributions are treated as described in the "Nonqualified Distributions" section of this report.

Retirement Savings Contribution Credit

The Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) authorized a nonrefundable tax credit of up to $1,000, or $2,000 if filing a joint return, for eligible individuals who contribute to IRAs or employer-sponsored retirement plans. The Retirement Savings Contribution Credit, also referred to as the Saver's Credit, is in addition to the tax deduction for contributions to traditional IRAs or other employer-sponsored pension plans. To receive the credit, a taxpayer must be at least 18 years old, not be a full-time student, not be a dependent on someone else's tax return, and have AGI less than certain limits. The limits are in **Table 5**. For example, individuals who make a $2,000 IRA contribution in 2020, have income of $15,000, and list their filing status as single would be able to reduce their 2020 tax liability by up to $1,000.[28]

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[27] The five-year period is not necessarily five calendar years. Contributions made from January 1 to April 15 could be considered made in the previous tax year.

[28] For more information on the Saver's Credit, see CRS In Focus IF11159, *The Retirement Savings Contribution Credit*.

Table 5. Retirement Saving Contribution Credit Income Limits for 2020 and 2021

Filing Status	2020 Income Limits	2021 Income Limits	Percentage Credit
Single, Married Filing Separately, Qualifying Widow(er)	$1 to $19,500	$1 to $19,750	50%
	$19,501 to $21,250	$19,751 to $21,500	20%
	$21,251 to $32,500	$21,501 to $33,000	10%
	more than $32,500	more than $33,000	0%
Head of Household	$1 to $29,250	$1 to $29,625	50%
	$29,251 to $31,875	$29,626 to $32,250	20%
	$31,876 to $48,750	$32,251 to $49,500	10%
	more than $48,750	more than $49,500	0%
Married Filing Jointly	$1 to $39,000	$1 to $39,500	50%
	$39,001 to $42,500	$39,501 to $43,000	20%
	$42,501 to $65,000	$43,001 to $66,000	10%
	more than $65,000	more than $66,000	0%

Sources: IRS Publication 590-A, at http://www.irs.gov/publications/p590a/; *2020 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2019-59, at https://www.irs.gov/pub/irs-drop/n-19-59.pdf; and *2021 Limitations Adjusted as Provided in Section 415(d), etc.*, Notice 2020-79, at https://www.irs.gov/pub/irs-drop/n-20-79.pdf.

Data on IRA Assets, Sources of Funds, Ownership, and Contributions

Table 6 contains data on the end-of-year assets in traditional and Roth IRAs from 2008 to 2019. According to the Investment Company Institute, traditional IRAs held much more in assets than Roth IRAs. At the end of 2019, total traditional IRA balances were $9.4 trillion and total Roth IRA balances were $1.0 trillion. Within traditional IRAs, more funds flowed from employer-sponsored pension rollovers than from regular contributions.[29] For example, in 2017 (the latest year for which such data are available), within traditional IRAs, funds from rollovers were $463 billion, whereas funds from contributions were $18.8 billion.[30] In contrast, within Roth IRAs in 2017, more funds flowed from contributions ($23.5 billion) than from rollovers ($9.9 billion).[31]

[29] Generally, rollovers are tax-free distributions of assets from one retirement plan that are contributed to a second retirement plan. Regular contributions are contributions to IRAs that are made from individuals' pre- or post-tax income (subject to the rules of the particular type of IRA).

[30] See Investment Company Institute, "The U.S. Retirement Market," Table 11, at https://www.ici.org/research/stats/retirement/.

[31] Investment Company Institute, "The U.S. Retirement Market," Table 12.

Table 6. Traditional and Roth IRAs: End of Year Assets

(in billions of dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Traditional IRAs	3,257	3,941	4,340	4,459	4,969	5,828	6,225	6,387	6,824	8,018	7,850	9,350
Roth IRAs	177	239	355	360	439	548	600	625	697	842	850	1,020

Source: Congressional Research Service (CRS) using data from the Investment Company Institute (ICI), The U.S. Retirement Market, First Quarter 2020, Table 10, at https://www.ici.org/research/stats/retirement/. ICI estimated 2018 and 2019 data. Data for 2020 were not available as of the date of this report.

Table 7 and **Table 8** provide additional data on IRA ownership amounts among U.S. households. The data are from CRS analysis of the 2019 Survey of Consumer Finances (SCF).[32] The SCF is a triennial survey conducted on behalf of the Board of Governors of the Federal Reserve and contains detailed information on U.S. household finances, such as the amount and types of assets owned, the amount and types of debt owed, and detailed demographic information on the head of the household and spouse.[33] The SCF is designed to be nationally representative of U.S. households, of which there were 128.6 million in 2019.

Table 7 categorizes IRAs by the amount in the account. Among households that have IRAs, 56.4% have account balances of less than $100,000 and 6.0% have account balances of $1 million or more.[34]

Table 7. Distribution of Individual Retirement Account (IRA) Balances in 2019

	Percentage of All U.S. Households	Percentage of U.S. Households with IRAs
With an IRA	25.3%	-
Account balance		
$1 to $24,999	7.2%	28.5%
$25,000 to $49,999	3.2%	12.8%
$50,000 to $99,999	3.8%	15.1%
$100,000 to $249,999	4.6%	18.4%
$250,000 to $999,999	4.9%	19.3%
$1,000,000 to $2,499,999	1.2%	4.9%
$2,500,000 or more	0.3%	1.1%

Source: CRS analysis of 2019 Survey of Consumer Finances.

32 More information on the Survey of Consumer Finances (SCF) is available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm.

33 The SCF data and codebook are available at https://www.federalreserve.gov/econres/scfindex.htm. In the SCF, the head of the household is the individual in a single household, the male in a mixed-sex couple, or the older individual in the case of a same-sex couple. The SCF codebook indicates that "no judgment about the internal organization of the households is implied by this organization of the data" and that the "term is euphemistic and merely reflects the systematic way in which the data set has been organized."

34 The first figure is calculated by adding the percentages of U.S. households with IRAs with balances between $1 and $99,999 (28.5% + 12.8% + 15.1% = 56.4%). The second figure is calculated by adding the percentages with balances of $1,000,000 or higher (4.9% + 1.1% = 6.0%).

Notes: Analysis does not include households with Keogh accounts. Balances represent the aggregate value of all IRAs within a household. Numbers may not sum to total due to rounding.

Table 8 provides data on IRA ownership and account balances among households that owned IRAs in 2019.

The following are some key points from **Table 8** regarding IRA ownership:

- In 2019, 25.3% of U.S. households had an IRA. Among households that owned IRAs, the median account balance ($70,000) was smaller than the average account balance ($253,799), which indicates that some households likely had very large IRA account balances.
- Households were more likely to own IRAs as the age of head of household increased. The median and average account balances also increased as the age of the head of the household increased.
- The percentage of households with an IRA and the median and average account balances increased with the income of the household. Among the explanations for this finding are that (1) households with more income are better able to save for retirement and (2) households with higher income are more likely to participate in a defined contribution (DC) plan (like a 401(k)) and therefore have an account to roll over.[35]
- Married households were more likely to have an IRA than single households and their median and average account balances were also larger. The explanations could include the following: both spouses in a married household might have work histories, enabling both to save for retirement or a married household might need larger retirement savings because two people would be using the retirement savings for living expenses in retirement.

Table 8. Ownership and Account Balances for IRAs in 2019

	Percentage of U.S. Households with Account	**Median Account Balance**	**Average Account Balance**
	Percentage of U.S. Households with Account	Median Account Balance	Average Account Balance
All Households	25.3%	$70,000	$253,799
Age of the Head of Household:			
Younger than 35	12.0%	$7,000	$22,529
35 to 44	21.8%	$53,000	$99,142
45 to 54	28.0%	$62,000	$174,390
55 to 64	30.1%	$100,000	$316,139
65 and older	32.8%	$125,000	$387,790

[35] See CRS Report R43439, *Worker Participation in Employer-Sponsored Pensions: Data in Brief*.

	Percentage of U.S. Households with Account	Median Account Balance	Average Account Balance
2018 Household Income (in 2019 dollars) :			
Less than $30,000	6.7%	$23,200	$95,306
$30,000 to $49,999	14.5%	$35,000	$88,,442
$50,000 to $74,999	21.8%	$36,000	$108,606
$75,000 to $124,999	32.1%	$54,000	$182,863
$125,000 or more	54.0%	$143,000	$406,569
Household Marital Status:			
Married	32.3%	$84,000	$293,737
Single	16.4%	$47,000	$153,721
Single Female	16.5%	$44,300	$137,488
Single Male	16.3%	$50,000	$177,780
Race or Ethnicity of the Household Respondent[a]:			
White, non-Hispanic	31.8%	$74,000	$271,358
Other[b]	27.5%	$100,000	$233,329
Black/African-American	8.7%	$40,000	$99,828
Hispanic	7.8%	$20,000	$90,227
Education Level of the Head of Household:			
Less than high school	6.1%	$25,000	$64,465
High school graduate	15.5%	$49,000	$128,207
Some college	16.7%	$50,000	$137,535
Associate's degree	21.8%	$42,900	$138,279
Bachelor's degree	37.6%	$84,000	$292,524
Advanced degree (master's, professional, doctorate)	49.7%	$120,000	$374,562

Source: CRS analysis of the 2019 Survey of Consumer Finances.

Notes: Median and average account balances are calculated using the aggregated value of all IRAs among IRA-owning households in 2019. *IRA-owning households* is defined as households where the head or household or spouse, if applicable, indicates owning an IRA. Any additional individual(s) in the household with an IRA is not included in this analysis. Analysis does not include households with Keogh accounts or employer-sponsored IRAs.

a. The SCF's question about race or ethnicity is only asked of the designated respondent. In 79% of sampled households, the designated respondent was the head of household.

b. "Other" includes respondents who indicated that they identified as Asian, American Indian/Alaska Native, or Native Hawaiian/Pacific Islander, or other. The SCF combined these categories in the public dataset. The

SCF allows respondents to indicate more than one race or ethnicity. CRS used the first response to analyze data. Nearly 7% of households had a respondent who indicated more than one race or ethnicity.

Table 9 describes taxpayer contributions to traditional and Roth IRAs in 2017. As shown in the tables, in 2017, over 2 million more taxpayers contributed to Roth IRAs than traditional IRAs.

Among taxpayers who contributed to traditional IRAs in 2017:

- half made the maximum contribution for their age group, and
- the average contribution for those who did not contribute the maximum increased by age group, ranging from about $1,460 for those under age 30 to $2,610 for those 60 and older.[36]

More than five times the number of taxpayers under age 30 contributed to Roth IRAs than traditional IRAs, though roughly the same percentage of each group contributed the maximum amount permitted. Among taxpayers who contributed to a Roth IRA in 2017:

- over one-third contributed the maximum amount for their age group, and
- the average contribution for those who did not contribute the maximum increased by age group, ranging from about $1,790 for those under age 30 to $2,720 for those 60 and older.[37]

[36] Not all taxpayers are eligible to deduct part or all of their traditional IRA contributions. Deductibility may factor into a taxpayer's choice to contribute the maximum amount. In 2017, taxpayers were not permitted to contribute to traditional IRAs after reaching age 70½.

[37] In 2017, the IRA contribution limit for individuals under 50 was $5,500. Individuals aged 50 and over could contribute additional $1,000 "catch-up" contributions, or $6,500. The maximum contribution for Roth IRAs is phased out for taxpayers approaching the maximum income threshold, which may contribute to the lower percentage of those contributing the maximum to Roth IRAs as compared to traditional IRAs. In addition, individuals who contribute the maximum amount permitted but divide their contributions between traditional and Roth IRAs are not captured in the data as having contributed to the maximum.

Table 9. Contributions to Traditional and Roth IRAs in 2017

	Traditional IRAs			Roth IRAs		
Age Group	**Number of Contributing Taxpayers**	**Percentage of Contributing Taxpayers Contributing the Maximum Amount ($5,500 or $6,500)**	**Average Contribution of Taxpayers Who Did Not Contribute the Maximum Amount**	**Number of Contributing Taxpayers**	**Percentage of Contributing Taxpayers Contributing the Maximum Amount ($5,500 or $6,500)**	**Average Contribution of Taxpayers Who Did Not Contribute the Maximum Amount**
Under 30	233,115	35.4%	$1,456	1,175,163	34.0%	$1,792
30 under 40	668,913	46.7%	$1,883	1,620,759	31.4%	$1,888
40 under 50	867,146	51.3%	$2,066	1,394,130	26.6%	$2,000
50 under 60	1,399,744	48.8%	$2,499	1,417,525	37.4%	$2,473
60 under 70½ (traditional), 60 under 70 (Roth)	1,316,200	54.7%	$2,608	995,486	48.8%	$2,718
70 or older (Roth)	n/a	n/a	n/a	161,042	56.3%	$2,247
All age groups	4,485,118	50.0%	$2,279	6,764,105	35.3%	$2,119

Source: CRS Analysis of Internal Revenue Service Statistics of Income 2017 Tax Stats—Accumulation and Distribution of Individual Retirement Arrangements (IRA), Tables 5 and 6.

Notes: 2017 is the latest year for which data are available. In 2017, there were 145.8 million taxpayers. In 2017, the IRA contribution limit for individuals under 50 was $5,500. Individuals aged 50 and older could contribute an additional $1,000 "catch-up" contribution, or $6,500. Prior to 2020, individuals could not contribute to traditional IRAs in or after the year in which they turned 70½. Maximum contributions refer only to taxpayers who contribute the exact amount of the limit. The maximum contribution for taxpayers whose earned income falls below the contribution limit is lower and is not captured in this table. In addition, the contribution limit applies to all of an individual's IRAs, so that individuals who contribute the maximum amount, but split contributions between a traditional and a Roth IRA, will not be recorded in the data as having contributed the maximum amount.

Appendix. Qualified Distributions Related to Natural Disasters and COVID-19

As part of the response to the 2005 hurricanes that affected the communities on and near the Gulf of Mexico, Congress approved provisions that exempted individuals affected by the storms from the 10% penalty for early IRA withdrawals. Congress approved similar provisions in response to the storms and flooding in certain Midwestern states in 2008, the hurricanes in 2017, the California wildfires in 2017, certain other federally declared disasters occurring after January 1, 2018, and the Coronavirus Disease 2019 (COVID-19) pandemic. Following Hurricane Sandy in October 2012, the Internal Revenue Service (IRS) eased certain requirements for hardship distributions from defined contribution plans. However, the IRS was unable to exempt distributions from retirement plans from the 10% early withdrawal penalty because such an exemption requires congressional authorization.

Qualified retirement plans for the purposes of penalty-free withdrawal provisions described below include traditional and Roth IRAs (along with employer-sponsored defined contribution accounts, such as 401(k), 403(b), and 457(b) plans, among others).

Qualified Distributions Related to Hurricanes Katrina, Rita, and Wilma

In response to Hurricanes Katrina, Rita, and Wilma, Congress approved the Gulf Opportunity Zone Act of 2005 (P.L. 109-135). The act amended the Internal Revenue Code to allow residents in areas affected by these storms who suffered economic losses to take penalty-free distributions up to $100,000 from their retirement plans, including traditional and Roth IRAs. The distributions must have been received after August 24, 2005 (Katrina), September 22, 2005 (Rita), or October 22, 2005 (Wilma), and before January 1, 2007. The distributions were taxable income and could be reported as income either in the year received or over three years (e.g., a $30,000 distribution made in May 2006 could have been reported as $10,000 of income in 2006, 2007, and 2008). Alternatively, part or all of the distribution could have been repaid to the retirement plan within three years of receiving the distribution. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another).

Qualified Distributions Related to the Midwestern Disaster Relief Area

In response to severe storms, tornados, and flooding that occurred in certain Midwestern states, the Heartland Disaster Tax Relief Act of 2008 (P.L. 110-343) allowed residents of specified Midwest areas to take penalty-free distributions up to $100,000 from their retirement plans, including traditional and Roth IRAs. This act was passed as Division C of P.L. 110-343, the Emergency Economic Stabilization Act of 2008. The bill amended 26 U.S.C. 1400Q, which was enacted as part of the Gulf Opportunity Zone Act of 2005 (P.L. 109-135). The distributions must have been received after the date on which the President declared an area to be a major disaster area and before January 1, 2010.[38] Apart from the dates and the areas affected, the provisions

[38] The disaster areas are limited to Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin.

were identical to the provisions for individuals who were affected by Hurricanes Katrina, Rita, and Wilma.

Qualified Distributions Related to Hurricanes Harvey, Irma, and Maria

In response to Hurricanes Harvey, Irma, and Maria, Congress approved the Disaster Tax Relief and Airport and Airway Extension Act of 2017 (P.L. 115-63). The act amended the Internal Revenue Code to allow residents in areas affected by these storms who suffered economic losses to take penalty-free distributions up to $100,000 from their retirement plans, including traditional and Roth IRAs. The distributions must have been made on or after August 23, 2017 (Harvey), September 4, 2017 (Irma), or September 16, 2017 (Maria), and before January 1, 2019. The distributions are included in taxable income and can be reported either in the year received or over three years. Alternatively, part or all of the distribution may be repaid to the retirement plan within three years of receiving the distribution. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another).

Qualified Distributions Related to the California Wildfires

In response to the California wildfires in 2017, the Bipartisan Budget Act of 2018 (P.L. 115-123) included a provision that amended the Internal Revenue Code to waive the 10% early penalty fee for distributions up to $100,000 for individuals whose principal residence sustained damage from the fires. The distributions must have been made on or after October 8, 2017, and before December 31, 2017. The distributions are included in taxable income and can be reported either in the year received or over three years, or be repaid through additional contributions to a retirement account within three years. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another).

Qualified Distributions Related to 2018 and Certain 2019 Disasters

A provision in Division Q of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), allows for penalty-free distributions up to $100,000 from retirement accounts for individuals who live in an area that had a major federally declared disaster from January 1, 2018, to 60 days after the enactment of the legislation on December 20, 2019.[39] The distributions are to be included in taxable income and can be reported either in the year received or over three years, or be repaid through additional contributions to a retirement account within three years. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another). Another provision allows qualified individuals—those who took a distribution for the purposes of constructing or purchasing a principal residence but who were unable to do so due to a disaster—to recontribute the amount of the distribution to their IRA.

Hurricane Sandy Relief

In the case of Hurricane Sandy in 2012, no legislation was passed that would have (1) exempted individuals in areas affected by this natural disaster from the 10% penalty for early withdrawals

[39] Under this law, the California wildfires are excluded from the definition of a qualifying disaster.

from IRAs or defined contribution retirement plans or (2) eased requirements for loans from defined contribution pensions for individuals affected by this natural disaster.[40]

The IRS eased requirements for hardship distributions in areas affected by Hurricane Sandy in 2012. Among the relief offered by the IRS in Announcement 2012-44, "Plan administrators may rely upon representations from the employee or former employee as to the need for and amount of a hardship distribution" rather than require documentation from the employee of the need.[41] The IRS relief did not include an exemption from the 10% penalty for distributions before the age of 59½. Exemptions from the 10% penalty require congressional authorization. In addition, in the announcement, the IRS suspended the provision that requires an individual to suspend contributions to 401(k) and 403(b) plans for the six months following a hardship distribution.

Qualified Distributions Related to the COVID-19 Pandemic

In response to the COVID-19 pandemic, a provision in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) exempts qualified individuals from the 10% early withdrawal penalty for distributions of up to $100,000 taken from retirement accounts from January 1, 2020, and before December 31, 2020 (sometimes referred to as *coronavirus-related distributions*). The distributions are to be included in taxable income and can be reported either in the year received or over three years or be repaid through additional contributions to a retirement account within three years. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another).

The CARES Act defines qualified individuals as those (1) who tested positive for COVID-19 or those with a spouse or dependent who tested positive for COVID-19; (2) facing financial difficulties due to being quarantined, furloughed, laid off, or unable to work due to lack of child care or reduced work hours as a result of COVID-19; (3) who own or operate a business that closed or reduced hours as a result of COVID-19; or (4) facing other factors as determined by the Secretary of the Treasury.

Under authority given in the CARES Act, the IRS outlined additional factors that make an individual eligible for coronavirus-related distributions or plan loan relief. The additional qualifying factors include

- the individual having a reduction in pay (or self-employment income), a job offer rescinded, or start date for a job delayed due to COVID-19;
- the individual's spouse or household member being quarantined, furloughed or laid off, having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, or having a reduction in pay (or self-employment income), or a job offer rescinded, or start date for a job delayed due to COVID-19; or
- the individual's spouse or household member owning or operating a business that closed or reduced hours due to COVID-19.

A member of an individual's household is someone who shares the individual's principal residence. Plan administrators may rely on employees' certifications as proof that they are qualified individuals. For more information on coronavirus-related distributions, see CRS In

[40] H.R. 2137, the Hurricane Sandy Tax Relief Act of 2013, introduced by Representative Bill Pascrell on May 23, 2013, would have both provided an exemption to the 10% early withdrawal penalty for retirement account distributions and eased requirements for loans from defined contribution pensions for those affected by Hurricane Sandy in 2012.

[41] See 26 C.F.R. §1.401(k)-1.

Focus IF11482, *Retirement and Pension Provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* and CRS Insight IN11441, *Internal Revenue Service (IRS) Guidance for Coronavirus-Related Distributions, Plan Loans, and Required Minimum Distribution (RMD) Rollovers*.

Qualified Disaster Distributions in 2020 and 2021

Section 302 of Title III of Division EE (the Taxpayer Certainty and Disaster Tax Relief Act of 2020) of the Consolidated Appropriations Act, 2021 (P.L. 116-260; December 27, 2020), permitted penalty-free distributions up to $100,000 from retirement accounts for qualified individuals following a major disaster that was declared from January 1, 2020, through 60 days after the enactment of the act (with an incident period occurring on or after December 28, 2019, and on or before December 27, 2020). The distributions must be made on or after the first day of the incident period and before the date that is 180 days after enactment of the act. COVID-19 is not included as a disaster for the purposes of this provision. This provision applies to qualified individuals affected by various federally declared major disasters, such as the California fires in 2020, multiple hurricanes, and other weather-related events.[42]

Distributions must occur on or after the first day of the incident period and before the date which is 180 days after the enactment of the act. Qualified individuals must (1) live in an area that had a major federally declared disaster on or after the first day of the incident period and (2) experience a disaster-related economic loss.

Distributions are to be included in taxable income and can be reported either in the year received or over three years or be repaid through additional contributions to a retirement account within three years. Amounts that are repaid are treated as a trustee-to-trustee rollover (as if they were made directly from one financial institution to another). The provision also allows certain qualified individuals—those who took distributions for the purposes of constructing or purchasing a principal residence but who were unable to do so due to a disaster—to recontribute the amount of the distribution to their IRAs.

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[42] To obtain a list of federally declared major disasters, search for declaration type "major disaster declaration" at https://www.fema.gov/disasters/disaster-declarations.

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