



ED SLOTT'S IRA ADVISOR

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June 2007

TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Special Issue

IRS Issues Final Roth 401(k) Distribution Regulations

*"One who asks a question is a fool for five minutes; one who does not ask a question remains a fool forever."
- Chinese proverb*

New Rules, New Questions and New Answers on Roth 401(k)s

This issue covers the final regulations issued by IRS on April 30, 2007 on taxation of distributions from designated Roth accounts, better known as Roth 401(k)s or Roth 403(b)s. The regulations refer to these accounts as "designated Roth accounts", but we will refer to them as Roth 401(k)s or Roth 403(b)s, since that is how they are better known.

These rules also cover transfers to Roth IRAs and how to determine whether distributions from Roth 401(k)s are qualified distributions. Qualified distributions are tax free so it is essential to know when Roth 401(k) funds, or funds transferred from a Roth 401(k) to a Roth IRA, can be withdrawn tax and penalty free. The availability of tax free withdrawals is the cornerstone feature of the Roth accounts and advisors must know exactly when funds can be accessed from Roth 401(k)s, Roth 403(b)s and Roth IRAs tax free.

The best advice is to avoid early distributions from Roth accounts.

Of course, the best advice is to avoid early distributions from Roth accounts since the tax on contributions has already been paid and the funds are growing tax free, if they are left alone. The longer these funds remain in the Roth accounts, the greater the tax free wealth will accumulate. If advisors can encourage their clients not to touch Roth funds until the distributions are all qualified, then they won't have to worry about many of these new rules, other than knowing when the distributions are qualified and can be withdrawn tax and penalty free.

The new rules only cover distributions since the regulations for Roth 401(k) contributions were issued on December 30, 2005 and became effective on January 1, 2006 when contributions to Roth 401(k)s were first permitted. We have also included a recap of the Roth 401(k) contribution rules.

Roth 401(k)s will be available to many more employees as more companies begin to offer the Roth 401(k) option as an add-on to their existing 401(k) plans.

For more IRA information, visit our website at www.ira-help.com.

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