

MOST COMMON IRA MISCONCEPTIONS

1. **A minor may not open an IRA** – All that's needed to open an IRA, subject to gross income limits, is taxable compensation, such as income from work. Neither the traditional IRA or the newer Roth IRA has a minimum age limit.
2. **An at-home spouse is ineligible for an IRA** – As long as a couple files a joint income tax return, the stay-at-home spouse is allowed an IRA contribution based on the working spouse's taxable compensation.
3. **IRA contributions must be made by December 31 every year** – The IRS actually allows you to make a contribution as late as the date you must file your income tax return without an extension of the filing time.
4. **Withdrawing money before age 59½ requires payment of an “early withdrawal” penalty** – There are actually eight different ways to withdraw funds penalty free before age 59½. One technique is to use the life expectancy method for calculating withdrawals, which may begin at any age.
5. **Pre-tax and after-tax contributions to a traditional IRA should not be made to the same account** – The IRS requires that all traditional IRA accounts be treated as one amount for the purpose of calculating distributions, so there is no need to maintain separate IRA's for deductible and non-deductible contributions. It is important, however, to keep accurate records on “after tax contributions” and “before tax contributions”.
6. **After age 70½, a minimum required distribution (MRD) must be taken annually from each traditional IRA** – The MRD for each account may be totaled and withdrawn from any one or more of the IRAs.
7. **People who participate in a retirement plan at work, may not contribute to an IRA** – You can make a non-deductible contribution to a traditional IRA, as long as you are under age 70 ½.
8. **You can only roll over an IRA once a year** – This is true, but only if you receive payments in the form of a check. You can arrange for a direct transfer from one IRA custodian to another IRA custodian as many times as you want.
9. **A non-spouse who inherits an IRA must take all the money out** – This depends on the Beneficiary Designation Form prepared by the owner of the IRA, the IRA provider and the IRA agreement. IRA assets may have to be withdrawn by the fifth year after the original owner's death or a minimum required distribution (MRD) might be possible over the heir's lifetime. New regulations substantially liberalized the rules regarding distributions to a non-spouse.
10. **Once MRDs begin, the required amount for the year must be taken, and cannot be increased or decreased** – The MRD is just that, a minimum. More than the minimum may be taken without penalty.