Individual Retirement Account Information

Farmers & Merchants Bank | The Bank of Fayetteville
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Traditional IRA Information

Traditional IRAs - Who is eligible?

Anyone who has compensation is eligible to make regular contributions to a traditional IRA even if he/she already participates in certain types of government plans, a tax sheltered annuity (TSA), a simplified employee pension (SEP) plan, a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA plan, or a qualified plan (QP) such as pension, 401(k), or profit sharing established by his/her employer.

Compensation is defined as the salary or wages you receive as an employee. If you are self-employed, compensation is your net income from personal services performed for the business. Amounts paid as alimony or separate maintenance payments under a divorce or separation instrument executed after 2018 won't be deductible by the payer. Such amounts also won't be includible in the income of the recipient. The same is true of alimony paid under a divorce or separation instrument executed before 2019 and modified after 2018, if the modification expressly states that the alimony isn't deductible to the payer includible in the income of the recipient. For more information, see Pub. 504. Passive income such as interest, dividends, capital gains, and rental income is not considered compensation for purposes of funding a traditional IRA. See your tax or legal professional for help in determining your compensation.

Traditional IRAs - When can I withdraw assets?

You can withdraw assets from your traditional IRA at any time. However, Federal and State taxes are imposed, as well as a 10% early-distribution penalty tax is imposed if a withdrawal is made before you reach age 59 ½. There are instances where an early withdrawal penalty does not apply. You can find those on the IRS's website, www.irs.gov, or consult a tax or legal professional.

Traditional IRAs - Are the earnings on my contributions currently taxed?

No. The earnings on traditional IRA contributions (deductible and/or nondeductible) remain tax-deferred until withdrawn from the IRA.

This document is designed to highlighted traditional individual retirement accounts (IRAs) and Roth IRAs. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the federal laws governing these accounts or how they may apply to your individual circumstances. For specific information, you are encouraged to consult your tax advisor or legal professional. Throughout this document you will find practical IRA information, from eligibility and contribution limirs to deductibility and reporting requirements. IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), IRS Publication 970, and the IRS's website, www.irs.gov, may also provide helpful information.

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Roth IRA Information

Roth IRA - What is it and who is eligible?

Roth IRA contributions are not tax-deductible. Unlike contributions to other tax-advantaged retirement accounts, you will not get an upfront tax benefit from contribution to your Roth IRA. However, once you've contributed the money to the account, you will not be subject to any additional taxes if certain conditions are met. There are two requirements for eligibility to make regular tax-year contributions to a Roth IRA:

- You must have compensation (or your spouse must have compensation)
- Your modified annual gross income (MAGI) for any tax year cannot exceed certain prescribed limits.

Roth IRA - Do I pay taxes on my earnings?

The earnings are not taxed if part of a qualified distribution. That's the best part of the Roth IRA. Unlike a traditional IRA, you cannot take a tax deduction for any of the contributions that you make to a Roth IRA.

Roth IRA - What is a qualified distribution?

For individuals aged 59 ½ or older who have fulfilled the five-year holding period, withdrawals from a Roth IRA are exempt from both taxes and penalties. Should the five-year holding period not be met, earnings will be subject to taxation, but not penalties. Distributions of Roth IRA earnings prior to reaching age 59 ½ and before the account's fifth anniversary may incur both taxes and penalties. However, penalties may be avoided (though not taxes) under specific circumstances. If an individual is under age 59 ½ and their Roth IRA has been established five years or more, earnings will not be subject to taxation provided certain conditions are satisfied.

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General Individual Retirement Account Information

When can I open an IRA?

An IRA can be opened at any time. IRA contributions must be made for a taxable year between January 1 and the date your federal income tax return is due for the year, excluding extensions. This due date is normally April 15 of the following year. So, for any tax year, you generally have fifteen and one-half months to contribute for that year. If the due date falls on a Saturday, Sunday, or legal holiday, the IRA contribution deadline is the next business day.

Traditional & Roth IRA - What are my contribution limits?

For a traditional IRA, you may deposit any amount up to 100% of your compensation or the maximum annual contribution amount, whichever is less. Your regular traditional IRA contribution must be coordinated with your regular Roth IRA contribution - your combined maximum contribution to both types of IRAs is the maximum annual contribution amount or 100% oif your compensation, whichever is less.

Maximum Annual Contribution Limits

The following table shows the maximum annual contribution amounts. Catch-up contributions are available for individuals age 50 or older.

Traditional & Roth IRA Contribution Limits			
Tax Year	**Contribution Limit**	**Catch-Up Limit**	**Total Limit for Age 50+**
2025	$7,000	$1,000	$8,000
2024	$7,000	$1,000	$8,000

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What are the basic Mandatory Distribution Requirements for Traditional & Roth IRAs?

Traditional IRA

You must begin to take minimum distributions from your account by April 1 following the calendar year you reach age 73 for those who reached age 72 in 2023 or later. For those who turned 72 in 2022 or earlier, the RMD age remains 72. All subsequent years' required minimum distributions (RMDs) must be distributed by December 31st of each year. Failure to take the annual RMD could result in a 50% excess-accumulation penalty. See your IRA custodian/trustee or your tax or legal professional for more information on required minimum distributions.

Roth IRA

You never have to take distributions from your Roth IRA. That's another advantage of the Roth IRA over the traditional IRA. Assets held in a Roth IRA are not subject to required minimum distributions for you.

How can I move assets from one IRA to another?

There are two ways to move an IRA from one financial organization to another: rollover or transfer.

- A rollover takes place when IRA assets are paid directly to you and you redeposit or roll them into an IRA within 60 calendar days of the day you receive the payment. Only one rollover is allowed within a twelve month period.
- A transfer occurs when assets are moved directly from one IRA into another like IRA without you having direct control or use of the assets.

What happens to an IRA in the event of an IRA Owner's Death?

In the event of an IRA owner's death, the assets within the IRA are generally passed to the designated beneficiaries, often the surviving spouse or other name individuals. The specific rules for distribution and taxation depend on whether the beneficiary is a spouse or non-spouse, and the type of IRA. Beneficiaries should consult with a financial advisor to determine the best distribution strategy for their individual circumstances.