

ROTH IRA Withdrawals

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Kelly asks:

Is it true that I will never have to pay capital gains taxes on my Roth IRA? If I do well in the market and my Roth has a million dollars in it and \$50,000 of that is contributions, I can take money out and won't have to pay any taxes? No short term or long term capital gains? And no additional income taxes later when I retire and take even more money out? And my withdrawals won't bump me up into a higher bracket?

Right now, I'm not concerned with mandatory withdrawals, but I'm trying to figure out which account will be most beneficial to withdraw from first, my Roth or my 401K, or to withdraw a balance between the two accounts. There's lots of years for things to change, I'd just like to get a general idea. Thanks a bunch!

My response:

Hello Kelly! ***Until Congress changes the law***, all **qualified distributions** from a Roth IRA are not included in gross income and no taxes (or penalties) are due on the contributions you make or their earnings.

In general, a **qualified distribution** is a withdrawal from a Roth IRA made 5-taxable-years after the year of your initial Roth IRA contribution when you have reached age 59-1/2.

Most taxpayers who have both a Roth IRA and a 401(k) find that it is beneficial to withdrawal from both of their plans at the same time. Some taxpayers choose to withdrawal enough from their 401(k) such that they use up their personal exemptions and standard or itemized deductions and withdrawal the remainder that they need to live on from their Roth. Other taxpayers, withdraw more from their Roth IRA such that they do not make their Social Security benefits taxable. You should ask your tax professional to run some projections for you, such that you'll know what makes the most sense for your situation.

Before anyone asks, no I cannot see into the future and I am not sure that Congress will change the law, but I wouldn't put it past them. Many of us can remember when Social Security benefits were completely tax-free. Then they capped the taxable part of Social Security at 50%, and now up to 85% of Social Security benefits are taxable. It's not hard to imagine that someday Congress will do the same to Roth IRAs. It would be very easy for them to change the Roth IRA into the equivalent of a non-deductible traditional IRA (no income tax on the amounts previously taxed, but taxes due on earnings, etc.).

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.