CONTACT INFORMATION

Online Customer Service Center
www.revenue.state.pa.us

Taxpayer Service & Information Center
Personal Taxes: 717-787-8201

Business Taxes: 717-787-1064

e-Business Center: 717-783-6277

1-888-PATAXES (728-2937)

Touch-tone service is required for this automated 24-hour toll-free line. Call to order forms or check the status of a personal income tax account or property tax/rent rebate.

Automated Forms Ordering Message Service

1-800-362-2050

Service for Taxpayers with Special Hearing and/or Speaking Needs

1-800-447-3020

Call or visit your local
Department of Revenue district office, listed in the government pages of local telephone directories.

RETIREMENT
TRADITIONAL IRAs and ROTH IRAs

Individual Retirement Accounts (IRAs) are special accounts that offer tax advantages to help taxpayers save for retirement.

pennsylvania
DEPARTMENT OF REVENUE

REV-636 PO (04-13)

TRADITIONAL IRAs

Traditional IRAs are federally allowed accounts taxpayers may set up to save for retirement. Contributions to traditional IRAs provide for federal income tax deductions, however taxpayers may also make IRA contributions without claiming deductions and when deductions are not permitted.

Contributions must be made before a taxpayer becomes 70 ½ years old, and minimum distributions from an IRA are required once a taxpayer reaches that age. A retired taxpayer between 59 ½ and 70 ½ years of age may choose whether or not to receive distributions.

For Federal income tax purposes, contributions to traditional IRAs lower taxable income and grow tax-free until withdrawn.

ROTH IRAs

Roth IRAs are also federally allowed accounts taxpayers may set up to save for retirement. However, contributions to Roth IRAs are not tax-deductible for federal income tax purposes, and there is no age limit for making contributions.

Generally, Roth IRA withdrawals are not taxable for federal income tax purposes, if the individual has had the retirement account for more than five years and has reached 59 ½ years of age.

What are Pennsylvania's rules regarding IRAs?

Following are the most commonly applicable personal income tax rules with regard to traditional and Roth IRAs.

- Contributions are not tax deductible.
- Withdrawals are generally not taxable after a taxpayer reaches retirement age and retires.
- Payments employers make for the benefit of employees directly to IRA trustees or issuers may be excluded from compensation.
- IRA contributions made by, on behalf of or attributable to an employee or self-employed person – regardless of whether the contributions were made directly or indirectly; through a payroll deduction or a salary reduction agreement; or otherwise – may not be excluded or deducted from income for PA personal income tax purposes.
- Income on assets held in an IRA is not taxable.
- Distributions can be considered income for PA personal income tax purposes to the extent distributions exceed the contributions to the plan when distributions are made before the IRA owner reaches 59 ½ years of age.
- The cost-recovery method is used to determine the portion of distributions to be included in income.

Must all distributions from IRAs be reported for PA personal income tax purposes?

Yes. All IRA distributions should be reported on PA Schedule W-2S, Wage Statement Summary, whether or not some or all of the distributions are taxable. If a taxpayer receives distributions before he/she reaches 59 ½ years of age, some of the distributions may be taxable. The cost-recovery method is

used to determine the portion of distributions to be included in income.

Are there differences between Pennsylvania and federal tax rules on roll-over contributions and plan conversions?

Yes. For federal tax purposes, amounts rolled over into Roth IRAs from traditional IRAs are considered income. Similarly, the conversion of a traditional IRA to a Roth IRA is generally taxable for federal income tax purposes.

For Pennsylvania personal income tax purposes, the following rules apply:

- Amounts rolled over into IRAs from non-IRA individual retirement plans are generally considered income in the distribution year to the extent the distributions exceed contributions to the plan.
- Amounts rolled over into an individual's IRA from a federally qualified retirement plan (other than an individual retirement plan) are generally considered income for the distribution year to the extent the distributions exceed contributions to the plan. However, when a plan allows the distribution to be paid directly to another federally qualified retirement plan maintained for the same owner's benefit – as a direct trustee-to-trustee transfer to the IRA – the distribution is not considered taxable income. Similarly, when the distribution is paid into the IRA no later than the 60th day after the day on which the IRA owner receives payment, the distribution is not considered taxable income.
- The conversion of a traditional IRA to a Roth IRA is generally not taxable. That is, monies transferred from a traditional IRA to a Roth IRA via conversion (whether by a trustee-to-trustee transfer or a roll-over within 60 days) are generally not subject to Pennsylvania personal income tax. However, any amounts transferred from the traditional IRA that are not put into the Roth IRA, be it by federal income tax withholding or otherwise, are subject to Pennsylvania personal income tax. In such a situation, basis is allocated pro-rata between the taxable distribution and the non-taxable conversion. If there is a partial rollover/conversion, the basis in the traditional IRA must be allocated pro-rata between the traditional IRA and the Roth IRA.

What are the PA rules with respect to IRA distributions to charities or for other non-retirement purposes?

Charity distributions and other non-retirement distributions made before the IRA owner retires from service are considered income for PA personal income tax purposes, to the extent distributions exceed contributions to the plan.

The cost-recovery method is used to determine the portion of distributions to be included in income.

Is there additional information available regarding PA personal income tax treatment of IRAs?

Yes. Please refer to Personal Income Tax Bulletin 2008-1 for additional IRA tax information, including details regarding employer-sponsored plans, investment accounts and inherited IRAs. The bulletin is available online at **www.revenue.state.pa.us.**

IRA Comparison Reference

		Traditional IRA	Roth IRA
Eligibility		All workers under age 70 ½ at the end of the year.	No age restrictions.
Contributions		Made with pre-tax income.	Made with after-tax income.
Tax Benefits of Contributions		Fully deductible if no employer retirement plan exists.	Not deductible. If converting from IRA to Roth IRA, conversion is generally taxable for federal income tax purposes.
Maximum Contribution (per individual)	**Tax Year:** 2008 2009 2010 2011	**Under Age 50:** $5,000 $5,000 $5,000 $5,000	Same. If you have both an IRA and a Roth IRA, the total contributions cannot exceed limits shown at left.
	Tax Year: 2008 2009 2010 2011	**Over Age 50:** $6,000 $6,000 $6,000 $6,000	Same. If you have both an IRA and a Roth IRA, the total contributions cannot exceed limits shown at left.
Rollovers			Same. No annual limit on amount rolled over from another qualified plan.
Conversion			May convert from traditional IRA to Roth IRA, but the conversion is generally subject to federal income tax.
Earnings/Withdrawals		Generally not subject to federal income tax until withdrawn.	Qualified distributions after age 59 ½ are generally not subject to federal income tax. Possible penalty if not in account for at least five years.
Distributions Before Age 59 ½		Generally taxable and subject to 10% early withdrawal penalty.	Earnings generally taxable and subject to 10% early withdrawal penalty.

For information regarding Pennsylvania personal income tax rules, see Q&A on reverse.