



# All About IRAs

An individual retirement arrangement (IRA) is a personal retirement savings plan that offers specific tax benefits. In fact, IRAs are one of the most powerful retirement savings tools available to you. Even if you're already contributing to a work-based retirement plan, you might also consider investing in an IRA.

## What types of IRAs are available?

There are two major types of IRAs: traditional IRAs and Roth IRAs. Both allow you to make annual combined contributions of up to \$7,000 in 2025 (unchanged from 2024). Taxpayers age 50 and older may also make additional "catch-up" contributions of up to \$1,000 in 2025 (and 2024).

Generally, you must have at least as much taxable compensation as the amount of your IRA contribution. But if you are married filing jointly, your spouse can also contribute to an IRA even if he or she does not have taxable compensation, provided the total contribution amount does not exceed your compensation for the year.

Both traditional and Roth IRAs feature tax-sheltered growth of earnings. And both typically offer a wide range of investment choices. However, there are important differences between these two types of IRAs. You should understand these differences before choosing the type of IRA that may be appropriate for your needs.

## Traditional IRAs offer tax deductions

A key benefit of a traditional IRA is the potential ability to take a tax deduction for your contributions. Tax-deductible contributions lower your taxable income for the year, reducing your overall income tax obligation.

If neither you nor your spouse is covered by a work-sponsored retirement plan, you can generally deduct the full amount of your annual IRA contribution. If one of you is covered by such a plan, your ability to deduct contributions depends on your annual income and tax filing status. You may qualify for a full deduction, a partial deduction, or no deduction at all.

## Are you (or your spouse) covered by a retirement plan at work?

In 2025, taxpayers who are covered by a work-sponsored plan and are filing as single or head of household may take a full deduction if their modified adjusted gross income (MAGI) is \$79,000 or less; married taxpayers filing jointly may take a full deduction if their MAGI is \$126,000 or less.

Taxpayers who are not covered by a retirement plan, but whose spouse is, may take a full deduction if their MAGI is \$236,000 or less. Following are the limits for a partial deduction or no deduction.



EagleClaw Capital Management, LLC.  
One Federal St.  
Boston, MA 02110

Phone: 617-314-0417  
Fax: 617-314-0417

Filing status	Deduction is limited if MAGI is between:	No deduction if MAGI is equal to or more than:
Single/Head of household	\$79,000 and \$89,000	\$89,000
Married joint*	\$126,000 and \$146,000	\$146,000
Married separate	\$0 and \$10,000	\$10,000

**\*If you're not covered by an employer plan but your spouse is, your deduction is limited if your MAGI is between \$236,000 and \$246,000, and eliminated if your MAGI is \$246,000 or more.**

When you take distributions from traditional IRAs, the portion that represents deductible contributions and earnings will be subject to income tax. In addition, you may have to pay a 10% early-withdrawal penalty if you're under age 59 ½, unless you meet an exception.

For details, please visit the IRS website. You can continue deferring taxes on your traditional IRA only until April 1 of the year following the year you reach age 73 (or 75 if you reach age 73 after December 31, 2032). That's when you have to take your first required minimum distribution (RMD). After that, you must take annual RMDs by the end of every calendar year for the rest of your life (or until your funds are exhausted). You can always withdraw more than required in any year; however, if you withdraw less, you'll be hit with a 25% penalty on the difference between the required minimum and the amount you actually withdrew.

(The penalty may be further reduced to 10% if you self-correct in a timely manner.)

## Roth IRAs offer tax-free income

Contributions to a Roth IRA are not tax deductible — you can invest only after-tax dollars in a Roth IRA. However, the primary benefit of these types of IRAs is that if you meet certain conditions, your withdrawals will be completely free of federal (and possibly state) income tax, including both contributions and investment earnings.

Not everyone can set up a Roth IRA, and even if you can, you may not qualify to take full advantage of it. Your ability to contribute to a Roth IRA depends on your MAGI and your income tax filing status.

In 2025, taxpayers may generally contribute the full amount to a Roth IRA if they are single/head of household with a MAGI of less than \$150,000, or if they are married, filing jointly, with a MAGI of less than \$236,000. Following are the phase-out limits for partial contributions.

To be eligible for tax-free distributions, you must hold your Roth IRA for at least five years and meet one of the following conditions:

- You have reached age 59 ½
- The withdrawal is made because of disability
- The withdrawal is made to pay first-time homebuyer expenses (\$10,000 lifetime limit from all IRAs)
- The withdrawal is made by your beneficiary or estate after your death



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Qualified distributions will also avoid the 10% early withdrawal penalty. This ability to withdraw your funds with no taxes or penalty is a key strength of the Roth IRA. And remember, even nonqualified distributions will be taxed (and possibly penalized) only on the investment earnings portion of the distribution, and then only to the extent that your distribution, plus all previous distributions, exceed the total amount of all contributions that you have made.

Another advantage of the Roth IRA is that there are no required distributions during your lifetime. You can put off taking distributions until you really need the income, or you can leave the entire balance to your beneficiary without ever taking a single distribution.

## Making the choice

Assuming you qualify to use both types of IRAs, which one might be appropriate for your needs? The Roth IRA might be a more effective tool if you don't qualify for tax-deductible contributions to a traditional IRA or if you want to help reduce taxes during retirement and preserve assets for your beneficiaries. But a traditional deductible IRA may be more appropriate if you want to lower your yearly tax bill while you are still working and are possibly in a higher tax bracket than during retirement.

Filing status	Contribution is limited if MAGI is from:	No contribution if MAGI is equal to or more than:
Single/Head of household	\$150,000 to \$164,999	\$165,000
Married joint	\$236,000 to \$245,999	\$246,000
Married separate	\$0 to \$9,999	\$10,000

### Note

You can have both a traditional IRA and a Roth IRA, but your total annual contribution to all IRAs, both traditional and Roth, cannot exceed the annual contribution limit.

### IMPORTANT DISCLOSURES

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Member NYSE, SIPC & FINRA



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