



# Advantages of a Roth IRA

## (Also, Change in US Postal Service (USPS) postmark rules)

**Change in US Postal Service (USPS) postmark rules**

Before getting into our regular tax alert, we wanted to make sure all our friends and clients were aware of an important change to the US Postal Service's (USPS) postmark rules that became effective on December 24, 2025.

What is different is that under the old rules, the postmark usually showed the day you put mail in a box or at the post office. Now, under the new rules, the postmark shows the date the mail enters an automated sorting machine at a processing center, which can be days later.

This matters for taxes since tax payments and government tax forms might be considered late if the processing date is past the filing or payment deadline, even if you mailed them early.

*What you can do:*

- Make sure your tax preparer arranges to file your tax returns and make your tax payments electronically, when available
- Pay online/in-person using digital payment portals or town/city hall drop boxes, if available
- If you must mail tax returns and payments, mail them days before a deadline
- At a retail post office, ask for a hand-stamped postmark for a specific date
- Use Certified Mail which offers proof of mailing date

**Advantages of a Roth IRA**

As the new year begins, we wanted to bring to your attention one of the most effective ways to save for retirement, the Roth IRA account.

What is a Roth IRA? Roth IRAs are tax-favored accounts to which taxpayers can make after-tax contributions of earned income such as wages. That is, contributions of money that has been taxed as part of your income. Contributions to the account can grow tax-free, and neither the contributions nor the earnings on them are subject to tax when a Roth IRA owner receives a qualified distribution from the account.

A Roth IRA is different from a “traditional” IRA which is a retirement savings account where contributions may be tax-deductible, and investment earnings grow tax-deferred. Also, with a traditional IRA, you pay income tax on withdrawals during retirement.
Roth IRAs offer several other great features:

- An individual can make contributions to a Roth IRA regardless of age.
- Distributions can be made completely tax free, as long as they are “qualified distributions” which generally are distributions made more than five years after the contribution and after the owner has attained age 59½, died, or become disabled.
- The owner is not required to take lifetime distributions, so the tax-free buildup can continue throughout the owner’s life.
- Distributions of contributions are always tax free, no matter when they are made.

Contributions to a Roth IRA should be made as soon as possible. This is so since tax-free distributions of earnings can occur only after the five-year requirement is satisfied. As such, to take full advantage of this, as well as to maximize the amount of earnings on which tax is deferred, you would want to get the five-year clock started as soon as possible. Actually, parents or grandparents may want to consider setting up and funding a Roth IRA for their children or grandchildren as soon as the children or grandchildren have enough earned income from part-time or summer jobs.

The fact that you can withdraw the annual contributions made to the Roth IRA at any time without incurring any tax means that these accounts can serve financial planning goals as well. Withdrawals before the five-year requirement is satisfied are tax free as long as they consist only of contributions. As such, a Roth IRA can act as an emergency fund since you can make tax-free withdrawals from the account to the extent of the contributions made to the account.

Let’s look at an example. Assume you contributed $3,000 to a Roth IRA in Year 1, Year 2, and Year 3. In Year 4, when the account is worth $11,000 (contributions plus earnings), you need $5,000 for an emergency. Since you've made contributions to the Roth IRA equal to $9,000, you would be able to withdraw the $5,000 tax-free from the Roth IRA. In applying this rule, distributions from a Roth IRA are treated as coming from contributions first. As such, you must keep accurate records of the contributions made to a Roth IRA so that if a withdrawal is made from the account, you can show that the withdrawal is coming from contributions and is, therefore, tax free.

**This alert covers only the surface level of the tax rules related to Roth IRAs that could potentially benefit you or your family. The tax rules in this area are complex and there are many issues to consider in taking advantage Roth IRAs. Please contact us if you have questions, want**

more information, or would like us to help you with Roth IRA Planning so that by working together we can deliver the best tax results for you.

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