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# Roths Revisited

**Why a Minority of Tax Preparers Don't Approve of After-Tax IRA Contributions**

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**Kevin, you've mentioned Roth IRAs in your column before, but my tax preparer says not to use them. What gives?**

-- Mark from Santa Barbara

This is a common question. Some tax preparers don't like Roth IRAs, some do, let's look at both sides of the issue.

A quick review. A Roth IRA allows a person with earned income (IRS imposes some income limitations) to contribute cash into an account with after-tax dollars. What's the thrill in that, you ask? Where is the tax benefit?

Roth IRAs interest some taxpayers because the funds, when withdrawn at some later date (with certain restrictions), come out of the account tax free. Note that any gains on the investment are distributed along with the original principal without any tax consequence.

Here's one reason a minority of tax preparers don't like them. Tax preparers look for ways to save taxes today, right now, not years from now. The Roth IRA goes against the grain for tax preparers since their mission is to save their clients taxes this year.

But consider the other side of this argument. What if an investment inside of a Roth IRA was profitable and grew to a much larger amount that could later be withdrawn completely tax free? Or what if the tax bracket the IRA holder is in later in life is higher than their tax bracket today? In either case, would it not make sense to invest after-tax dollars today, and take tax-free withdrawals later?

Also, consider this: Though it doesn’t feel like it, historically we are in a low tax environment. Might it make sense to place after-tax money into an account today, and withdraw our investment along with any earnings tax free, later when we might be in a higher tax environment? No one can say for sure what the future holds, but many financial professionals believe that taxes will go up at some point in the future.

Another argument proposed is that eventually the IRS will change the tax structure of the Roth. The feeling is that the IRS will come up with a way to tax distributions, taking away some of the benefit. As an example of Congress giving and then taking away, they point to Social Security, which at one time was not taxable income. Today, it is taxable to certain Social Security recipients.

No one knows what the future holds, so let’s consider the alternate argument. Social Security income has become taxable for some, but does that mean they would rather not have it? If they could go back in time and opt out of Social Security, would they? Probably not. Even though the tax structure is not exactly what they expected, that Social Security check is still a benefit.

Neither tax nor financial planning is an exact science. There are many and varied approaches, but you are ultimately responsible for your financial future. Do some research, ask trusted professionals for advice, then go with what makes the most sense for you personally.

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