# Q. I’ve decided to invest my $4,500 tax refund in an IRA. How do I decide if it should be a Roth or a traditional IRA?

A. We’re glad to hear you’re saving for your future.

Before you decide what kind of account you should save in, let’s review the rules.

The maximum IRA contribution level for 2015 is $5,500, and you can save an additional $1,000 if you’re over age 50 — as long as you qualify based on your income.

The level of your Modified Adjusted Gross Income (MAGI) for the tax year dictates whether you are permitted to actually MAKE Roth IRA contributions or not, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

If you are single, the income range is $116,000 to $131,000.

“This means that if your MAGI is under $116,000 and you are filing single, you may contribute the full amount to a Roth for tax year 2015,” Aznar said. “If your MAGI is $131,000 or over, you are completely phased out and not permitted to make Roth IRA contributions at all. If your MAGI falls in between the two numbers, you are permitted to make a reduced Roth IRA contribution.”

If you are married filing jointly, the income range is between $183,000 and $193,000, Aznar said.

If you qualify, you then need to weigh which contribution will be more beneficial to you long-term.

Ask yourself if your current tax rate is higher or lower than what you expect your rate will be when you start to take distributions from the account, said Gerard Papetti, a certified financial planner and certified public accountant with U.S. Financial Services in Fairfield.

“If you expect your current tax rate will be higher than your tax rate at the time of distribution, a traditional IRA will provide a greater benefit as you will receive a larger tax benefit based on the higher rate,” Papetti said.

He said you may also benefit if you retire in a state with a lower tax rate than New Jersey because while the contribution to a traditional IRA is not deductible for New Jersey state income tax purposes, the tax-deferred earnings are subject to tax when withdrawn.

“If you retire in a state like Florida, there will be no tax on the traditional IRA earnings,” Papetti said. “Conversely if your current tax rate is expected to be lower than the tax rate when distributions are taken, then a Roth IRA would yield a greater after-tax benefit.”

Also ask yourself if you will need the IRA account to help meet your retirement income.

“One major benefit to a Roth IRA is that you would not be required to take mandatory distributions at age 70 ½,” Papetti said. “So if you don’t think you will need the funds from the IRA, a Roth may be more beneficial to accumulate wealth for your heirs.”

Papetti said assuming you qualify to deduct the IRA contribution, knowing for certain if your tax rate will be higher or lower than it is today is based upon your understanding of your current taxable income versus your future projected taxable income when you start taking distributions as well as considering that tax rates may change in the future.

“Obtaining a tax deduction today usually is the deciding factor to choose the traditional over the Roth IRA,” he said. “However, splitting the contribution between a traditional and Roth IRA is a way to hedge and provide two sources of retirement funds; taxable and tax-free.”

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