

Investing and retirement

Roth or traditional: pay the tax now or later

Both kinds of retirement account help you save. The difference is when you pay the tax. How to choose, with the 2026 limits and a tax credit worth knowing about.

7-minute read • Updated October 2026 • Checked against its sources



The short version

- ✓ A traditional account can cut your taxes now, and you pay tax when you take money out. A Roth works the other way: tax now, tax-free later.
- ✓ Early in your career or not earning much yet? A Roth tends to fit. In higher tax brackets, the traditional deduction tends to help more.
- ✓ For 2026, you can put up to \$7,500 into IRAs, or \$8,600 at 50 or older. Depending on your income, you may also get the Saver's Credit.

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One question: now or later?

Retirement accounts come with a tax break. The big question is when you get it. With a traditional account, you get the break now. With a Roth account, you get it later.

You'll see this choice in two places. An IRA, or individual retirement account, is one you open on your own. A workplace plan, like a 401(k) or 403(b), comes through your job, and some offer a Roth option too. ² Either way, Roth or traditional is about taxes. Inside the account, you still choose what to invest in. Our guide to [investing, step by step](#) covers that part.

Online: advisersgiveback.org/resources/investing-first-steps/

If you're just getting started, you're in good company. In 2025, 38% of non-retired adults ages 18 to 29 had a retirement account like a 401(k) or an IRA.¹

Kieren Reilly, a Baltimore-based CFP® professional and Advisers Give Back volunteer, answered this question in our workshop "The Contractor Tax Playbook." "It's a complicated question to unpack," Kieren said. "I'll try to do it very simply."³

Watch · 1:18



Roth or traditional: pay the tax now or later

Roth vs. traditional IRA in plain words: pay tax now or later. Early in your career or not earning a lot yet, Roth tends to fit; later with higher income, the deduction tends to make sense.

Kieren Reilly, a volunteer CFP® professional

Scan the code to watch it, or go to advisersgiveback.org/resources/roth-or-traditional/



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How each one works

Here's the same account, taxed two ways.

Traditional

- **Going in:** what you put in can lower your taxable income for the year.^{2 10}
- **While it grows:** no tax on the gains yet.²
- **Coming out:** generally taxed as income. Before age 59½, you'll usually owe an extra 10% federal tax too, and in California an extra 2.5% state tax, unless an exception applies.^{5 6}
- **Required withdrawals:** generally start at age 73, or 75 if you were born in 1960 or later.^{7 8}

Roth

- **Going in:** no tax break now. You put in money you've already paid tax on.^{2 4}
- **While it grows:** no tax on the gains.^{4 12}
- **Coming out:** tax-free in retirement, once you meet a few rules.⁴
- **Required withdrawals:** none while you're alive.⁷

As Kieren puts it, with a traditional account, "because you took a tax break, you'll have to pay income tax on the money when it comes back to you later." With a Roth, you skip the break now, and the growth comes out tax-free.³

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Which one tends to fit you

Kieren boils the choice down to two questions. Do you think you'll be in a higher tax bracket later than you are now? And do you need the tax break now, or not?³

Kieren's rule of thumb: if you're early in your career, or you're not making a lot of money yet, a Roth tends to be a good option. You pay the tax while your rate is low, and the money grows in a tax-free account. If you're later in your career, with a higher income and higher tax brackets, taking the deduction tends to make sense.³



What your tax bracket means

Income is taxed in layers. In 2026, a single filer pays 10% on the first \$12,400 of taxable income and 12% on the next layer, up to \$50,400. Above that, rates start at 22%. For a married couple filing jointly, the 12% layer runs up to \$100,800. Taxable income is what's left after deductions, like the \$16,100 standard deduction for a single filer. Your bracket is the rate on your top layer, not on all of your income.⁹

Not sure which way your income will go? You don't have to pick just one. The IRA limit covers your traditional and Roth IRAs together, so you can split what you put in between them.¹⁰ And you can decide again each year, as your life changes.

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How much you can put in for 2026

\$7,500

the most you can put into all your IRAs, traditional and Roth together, for 2026

It's \$8,600 if you're 50 or older. It can't be more than your taxable pay from work, but a married couple filing jointly can count either spouse's pay.

Source: Internal Revenue Service, Retirement topics: IRA contribution limits (Updated September 23, 2026)

- **IRAs.** Up to \$7,500 for 2026, or \$8,600 if you're 50 or older. That's the total for all your traditional and Roth IRAs, and it can't be more than your taxable pay from work for the year. If you're married and file jointly, a spouse with no pay from work can still put money in an IRA, based on the other spouse's pay.¹⁰
- **Workplace plans.** Up to \$24,500 in a 401(k), 403(b), governmental 457 plan or the Thrift Savings Plan. At 50 or older, you can generally add \$8,000 more. At ages 60 to 63, you can add \$11,250 instead.¹¹ The limit covers your traditional and Roth contributions together.¹²
- **Both.** You can put money in an IRA even if you have a plan at work.¹⁰

Income limits apply at the high end. For 2026, the amount you can put in a Roth IRA starts to shrink at \$153,000 of income for a single filer, and phases out at \$168,000. For a married couple filing jointly, the range is \$242,000 to \$252,000. If you have a plan at

work, your traditional IRA deduction phases out between \$81,000 and \$91,000 for a single filer. ¹¹ The Roth option in a workplace plan has no income limit. ¹²

You can open an IRA at a bank or other financial institution, a mutual fund or life insurance company, or through a stockbroker. You have until the tax filing deadline, not counting extensions, to put money in for a year. ¹³ For 2026, that means April 2027. If you work for yourself, you also have plans made for the self-employed, like a SEP IRA or a solo 401(k). ¹⁴ Our guide to [contractor taxes](#) covers the rest of the 1099 picture.

Online: advisersgiveback.org/resources/contractor-taxes/

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Taking money out

Retirement money is meant to stay put until retirement, and the rules are built that way.

- **Traditional.** What you take out generally counts as taxable income. Before age 59½, you'll usually owe an extra 10% federal tax too, unless an exception to that extra tax applies. ⁵ If you live in California, the state usually adds an extra 2.5% tax on the part that's taxed as income. ⁶
- **Roth IRA.** The money you put in comes out first, free of tax and the extra 10%, at any age. The growth comes out tax-free once you're 59½, as long as it's been at least five years since your first Roth IRA contribution. The five years count from January 1 of the tax year that contribution was for. After five years, a disability or up to \$10,000 for a first home can also qualify. ⁴
- **Required withdrawals.** Traditional accounts generally make you start taking money out at age 73, or 75 if you were born in 1960 or later. Roth IRAs, and Roth accounts in 401(k) and 403(b) plans, don't while you're alive. ^{7 8}



Easy to reach isn't the same as free

Because Roth IRA contributions can come out at any time, it's tempting to use the account as a savings account. But every dollar you take out loses its chance to grow tax-free. Keep a separate [emergency fund](#) for surprises, and let retirement money stay put.

Online: advisersgiveback.org/resources/not-if-but-when/

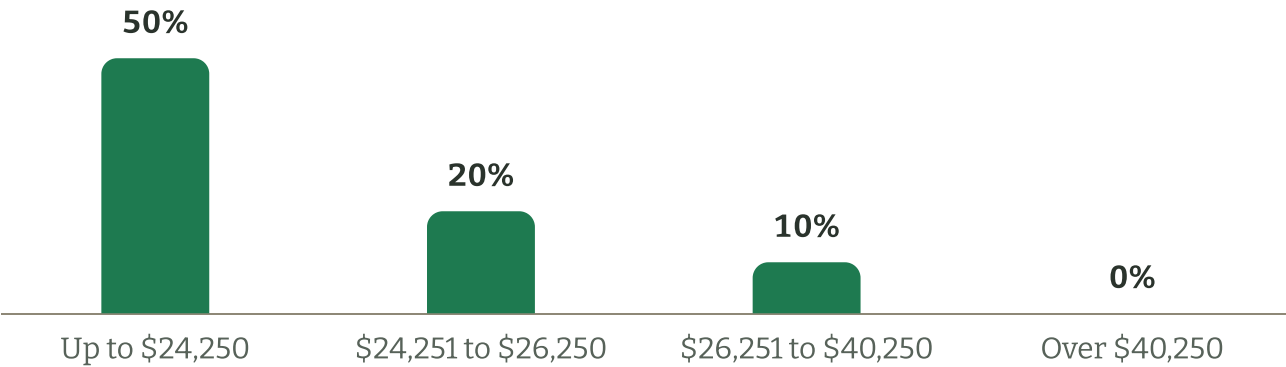
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The Saver's Credit, and what changes in 2027

If your income is low to moderate, you may get a tax credit just for saving for retirement. The Saver's Credit is 50%, 20% or 10% of what you put in, counting up to \$2,000 (\$4,000 for a married couple filing jointly). That makes the biggest credit \$1,000, or \$2,000 for a couple. It counts IRA contributions, traditional or Roth, and what you put in a 401(k), 403(b) or similar plan at work. Recent withdrawals from a retirement account can shrink it. ¹⁵

The lower your income, the bigger the Saver's Credit

Credit as a share of what you put in for retirement (counting up to \$2,000), for a single filer, by adjusted gross income, 2026



Head of household: 50% up to \$36,375, 20% up to \$39,375, 10% up to \$60,375. Married filing jointly: 50% up to \$48,500, 20% up to \$52,500, 10% up to \$80,500, counting up to \$2,000 for each spouse.

Source: Internal Revenue Service, Notice 2025-67: 2026 Amounts Relating to Retirement Plans and IRAs, as Adjusted for Changes in Cost-of-Living (November 13, 2025)

For 2026, the credit ends once your adjusted gross income is over \$40,250 as a single filer, \$60,375 as a head of household, or \$80,500 as a married couple filing jointly.¹⁶ A traditional contribution can lower your adjusted gross income, so if you're near one of these lines, it may also move you into a bigger credit.¹⁵ You also need to be 18 or older, not a full-time student, and not claimed as a dependent on someone else's return.¹⁵ You claim it with Form 8880. It can lower the income tax you owe to zero, but not below that.¹⁷

The IRS says a change is coming. Starting with 2027, a new Saver's Match replaces the Saver's Credit for retirement savings. Instead of a tax credit, the federal government will match up to 50% of what you put in, up to \$1,000 a year per person, and deposit it straight into your retirement account. You can qualify even if you owe little or no federal income tax. The income limits are lower: for a single filer, the full match goes up to \$20,500, and the match ends at \$35,500. You'd claim it on your 2027 tax return, filed in 2028. The IRS says you don't need to do anything in 2026.¹⁸

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When to talk it through

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Try it this week

Find last year's tax return and look for your taxable income. See which bracket it falls in. If you have a plan at work, log in and check whether it offers a Roth option, and which one you're using now.

*Roth or traditional is a question about when you pay the tax.
Either way, the money you put away is working for your future.*

Some cases are worth a second opinion: your income swings a lot from year to year, you're close to one of the income limits, you're thinking about moving money from a traditional account to a Roth, or you have more than one account to choose from. A volunteer adviser can help you weigh it, one-on-one and for free.

Questions to bring to your adviser

A volunteer adviser is ready when you are.

A volunteer adviser can look at your numbers with you and help you decide what to do first.

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