Roth IRA versus Traditional IRA: Which Is Better for You?

Roth IRAs tend to get a lot of hype, and for good reason: because you pay the taxes up front, your eventual withdrawals (assuming you meet the age and holding-period requirements—more on these below) are completely tax-free.

While we like "tax-free" as much as the next person, there are times when a traditional IRA will put more money in your pocket than a Roth would.

Making the Decision on What's Best

Example. Say that your tax rate is 32 percent and that you will invest $5,000 a year in an IRA and earn 6 percent interest. Should you put the $5,000 a year into a Roth or a traditional IRA?

Say further that neither you nor your spouse is covered by a workplace retirement plan, so you can contribute the $5,000 a year without worry because it's under the contribution limits. If your income is too high for the Roth IRA, you make the $5,000 contribution via the backdoor.

Traditional IRA

If you invest the $5,000 in a traditional IRA, you create a side fund of $1,600 ($5,000 x 32 percent). On the side fund, you pay taxes each year at 32 percent, making your side fund grow at 4.08 percent (68 percent of 6 percent).

Roth IRA

Roth contributions are not deductible; this means no side fund, so your annual investment remains at $5,000.

Cashing Out

For the Roth, your marginal tax rate at the time of your payout doesn't matter because you paid your taxes *before* the money went into the account. The whole amount is now yours, with no additional taxes due.

But for the traditional IRA, your current tax bracket matters a great deal. You have taken care of the taxes on the side fund annually along the way, but the traditional IRA (both growth and contributions) is taxed at your current marginal tax rate at the time you cash out.

The table below shows you how this looks with tax rates of 22 percent, 32 percent, and 37 percent at the time you cash out (winners are in bold):

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Marginal tax rate at cash-out	10 years @ 6%	20 years @ 6%	30 years @ 6%	40 years @ 6%
22%	**Trad: $74,557** Roth: $69,858	**Trad: $202,074** Roth: $194,964	**Trad: $421,482** Roth: $419,008	Trad: $801,048 **Roth: $820,238**
32%	Trad: $67,571 **Roth: $69,858**	Trad: $182,578 **Roth: $194,964**	Trad: $379,581 **Roth: $419,008**	Trad: $719,024 **Roth: $820,238**
37%	Trad: $64,079 **Roth: $69,858**	Trad: $172,830 **Roth: $194,964**	Trad: $358,630 **Roth: $419,008**	Trad: $678,012 **Roth: $820,238**

You can see that the traditional IRA needs a low tax rate at the time of cash-out to win. But even in the 22 percent cash-out tax rate, the Roth wins at the 40-year mark.

Creating More Business Meal Tax Deductions After the Trump tax cuts

Here's good news for business meals: Trump Tax Cuts (or the Tax Cuts and Jobs Act (TCJA)) removed the "directly related and associated with" requirements from business meals.

The net effect of this change is to subject business meals once again to the pre-1963 "ordinary and necessary" business expense rules.

You are going to like these rules.

Restaurants and Bars

Question 1. If, for business reasons, you take a customer to breakfast, lunch, or dinner at a restaurant or hotel, or to a bar for a few drinks, but you do *not* discuss business, can you deduct the costs of the meals and drinks?

Answer 1. Yes. Even though you did not discuss business, the law provides that if the circumstances are of a type generally considered conducive to a business discussion, you may deduct the expenses for meals and beverages to the extent they are ordinary and necessary expenses. Consider this "no discussion" meal a "quiet business meal."

Question 2. What are circumstances conducive to a business discussion?

Answer 2. This depends on the facts, taking into account the surroundings in which the meals or beverages are furnished, your business, and your relationship to the person entertained. The surroundings should be such that there are no substantial distractions to the discussion.

Generally, a restaurant, a hotel dining room, or a similar place that does not involve distracting influences, such as a floor show, is considered conducive to a business discussion. On the other hand, business meals at nightclubs, sporting events, large cocktail parties, and sizable social gatherings would not generally be conducive to a business discussion.

Meals Served in Your Home

Question 3. Does a business meal served in your home disqualify the deduction?

Answer 3. No, as long as you serve the food and beverages under circumstances conducive to a business discussion. But because you are in your home, the IRS adds that you must clearly show that the expenditure was commercially rather than socially motivated.

Goodwill Meals

Question 4. If, for goodwill purposes, you take a customer and his or her spouse to lunch and don't discuss business, will the cost of the lunch become non-deductible?

Answer 4. Not if, in light of all facts and circumstances, the surroundings are considered conducive to a business discussion, and the expenses are ordinary and necessary expenses of carrying on the business rather than socially motivated expenses.

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Question 5. Is the situation the same if the taxpayer's spouse accompanies the taxpayer at a dinner for business goodwill reasons?

Answer 5. Yes, the meal is deductible. This is true whether or not the customer's spouse is present. Again, the meal must meet the ordinary and necessary business expense standards.

Document the Meal Deductions

You need to keep records that prove your business meals are ordinary and necessary business expenses. You can accomplish this by keeping the following:

1. Receipts that show the purchases (food and drinks consumed)
2. Proof of payment (credit card receipt/statement or canceled check)
3. Note of the name of the person or persons with whom you had the meals
4. Record of the business reason for the meal (a short note—say, seven words or fewer)

The costs of your business meals continue to be 50 percent deductible (as they were before the TCJA).

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