

How Are My Financial Accounts Taxed?

401(k)

Workplace Retirement Account

Contributions are tax-deductible, reducing your taxable income for the year. Your investments grow tax-deferred until you withdraw. In retirement, those withdrawals are taxed as ordinary income. Similar to 403(b), 457(b) and TSP.

IRA

Individual Retirement Account

Contributions may be tax-deductible, depending on several factors including your income. Your investments grow tax-deferred until you withdraw them. In retirement, withdrawals are taxed as ordinary income.

Roth IRA

Big Tax Benefits

Contributions are made with after-tax dollars, but qualified withdrawals in retirement are tax-free. You pay tax once on the money going in, and never pay tax on those dollars again. Investment growth is tax-free.

Brokerage

Individual Brokerage Account

Contributions are made with after-tax dollars. When you sell an investment, any resulting capital gain is taxed. The tax rate varies based on how long you held the investment and your overall income. If your investments pay out dividends or interest, that is considered taxable income in the year received.

Bank Account

Checking or Savings

If your checking or savings accounts pay interest, the interest earned is taxed as ordinary income.



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