Is the Roth IRA for you?

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Many people think it isn't for them, they may be wrong.

Sophisticated investors rushed to embrace the Roth Individual Retirement Account when it was introduced in 1998. But most Americans have yet to open Roth accounts at their banks. They probably don't realize they're passing up one of the best deals Congress has ever offered to the average taxpayer.

The money you earn in a Roth IRA is tax-free. By contrast, money earned in a regular IRA is only tax-deferred; every penny you take out will be taxable income.

Here's what you should know about this wonderful account:

The Roth IRA is for middle-class working Americans.

The only people not eligible to open a Roth are single taxpayers who earn more than $110,000 and married couples filing jointly who earn more than $160,000. Roth IRA contributions are limited to $2,000 a year, or $4,000 for a married couple.

You can tap a Roth IRA without tax or penalty -- anytime.

A regular IRA ties up your money until your 59 1/2. But you can withdraw your contributions from a Roth IRA without tax or penalty -- anytime, at any age, for any reason.

For example:

Lets say you contribute $2,000 a year, and it earns 8% a year. After four years, you have $9733. If you withdraw the $8,000 in contributions, you owe nothing to Uncle Sam. Only the $1,733 in earnings are subject to income tax, plus a 10% penalty if you take it out.

And your Roth earnings escape the 10% penalty if used to pay for higher education or a first home, or if you're disabled or your family is emptying the account at your death. If you've owned the Roth for five years or more, there's no penalty or tax on earnings used to buy a first home or withdrawn because of disability or death. After you've owned the account for five years and you're over 59 1/2, all earnings you withdraw are tax-free.

Of course, the smart thing is not to withdraw money but to keep it growing tax-free as long as possible. Unlike a regular IRA, which you must start emptying after age 70 1/2, you never have to take money out of a Roth. If you leave it to your kids, they won't owe income tax on it either.

You can have a Roth even with a retirement plan at work.

Participating in a employer-sponsored retirement plan can make you ineligible for a regular IRA --

but not for a Roth IRA, even if you're the employer, says Ed Slott, a tax accountant in Rockville Centre, NY.

A Roth IRA is a better deal than a regular IRA.

Converting an existing regular IRA to a Roth may not make sense, because a conversion triggers a tax bill. But for new contributions, a Roth IRA always beats a regular IRA. There's only one thing a regular IRA gives you that a Roth doesn't -- a tax deduction.

But the Roth is still a better deal. "A $2000 tax-deductible contribution to a regular IRA saves you $560 in taxes if you're in the 28% tax bracket." says Slott. "That's barely more than $10 a week. You'd spend more on pizza and a movie ticket. And look at what you give up in exchange: You can't access your money until your 59 1/2, and ultimately it's all taxable. If you put that $2000 into a Roth instead, you can take it out anytime -- tax-free and penalty-free -- and eventually even your earnings are tax-free."

A Roth IRA is a good gift.

If your child or grandchild earns money babysitting or mowing lawns, a Roth IRA could grow that after-school salary into a small fortune. But it's hard to persuade a teenager to save for a rainy day. So consider opening a Roth as a gift. There's no minimum age requirement. A one-time $2000 contribution for a 16 year-old will be worth $86,855 by the time he's 65 if it grows 8% a year -- and he'll never owe taxes on a penny of it.