

Memo

To: **Tax Impact** Readers
From: Bruce W. Breitweiser
Date: March 1, 2010
Re: Roth IRA Conversion Planning

Prior to 2010, the income limits on both kinds of IRAs have prevented higher income taxpayers from making deductible contributions to traditional IRAs, or a contribution to a Roth IRA. Although you could make nondeductible contributions to a traditional IRA, the tax benefits were limited (i.e., no current deduction, the tax on the IRA income is deferred rather than eliminated, and minimum distributions are required).

However, for tax years beginning after December 31, 2009, a conversion from a traditional to a Roth IRA can be made without regard to your income or filing status. Therefore, if you are a married individual filing separately, or have adjusted gross income greater than \$100,000, you are no longer precluded from making a Roth IRA conversion. The elimination of the rules related to IRA conversions may provide you with a unique tax planning opportunity.

Although the income limitation on Roth IRA conversions is permanently repealed, there is a special tax treatment available for 2010 conversions only. Conversion income in 2010 is recognized ratably in 2011 and 2012, unless you make an election to recognize all of the income in 2010.

There are several valid reasons why you may want to take advantage of the opportunity to convert to a Roth IRA, other than the obvious tax-free withdrawals and not being subject to required minimum distributions during your lifetime. These include the recent devaluation of your IRA investments, hedging against future tax rate increases, offsetting any current year net operating losses, or estate planning.

The following key factors generally need to be identified and addressed in order to best analyze a Roth IRA conversion:

- Asset mix (i.e., qualified versus nonqualified, liquid versus illiquid)
- Traditional IRA fair market value
- Time horizon
- Current and future cash flow needs
- Current marginal tax rate versus projected future marginal tax rate
- The ability to pay the income tax on a conversion with nonqualified funds
- Estate planning objectives

As you can see, whether a traditional IRA should be converted to a Roth IRA is a complex issue. Please call our office at your earliest convenience to discuss the conversion strategies available to maximize your tax benefits.

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