

## Roth IRA Conversions

Taxpayers who convert their traditional IRA into a Roth IRA enjoy many tax advantages. The tax advantages include the following:

- Qualified Roth IRA distributions are tax-free.
- There are no requirements to take distributions at age 70 ½ unlike traditional IRA's.
- Roth IRA's can be funded after age 70 ½ unlike traditional IRA's.
- Roth IRA conversions provide estate tax relief because the tax payable upon conversion reduces a taxpayer's estate whereas traditional IRA's are valued at fair market value, unreduced by the income tax that will be paid (by the estate or heir) when the funds are withdrawn.
- Distributions do not result in any additional tax on social security benefits.

Unfortunately the only way for wealthy individuals to contribute to a Roth IRA would be to participate in their employer's Roth 401(k) program if they offer one. Otherwise there are income limits on being able to contribute to a Roth IRA. For 2009 contributions are restricted if AGI (adjusted gross income) is \$105,000 for single filers and \$166,000 for joint filers. Contributions are prohibited if AGI is \$120,000 for individuals and \$176,000 for joint returns. There is also a \$100,000 adjusted gross income limitation on the ability to convert a traditional IRA to Roth IRA. Thus Roth IRA's have not been readily available to wealthy individuals.

Beginning in 2010 there will be no income limit on the ability to convert a regular IRA or qualified plan to a Roth IRA. Also, in 2010, one can spread the amount of the conversion includible in taxable income over two years 2011 and 2012.

So who is likely to benefit from this new law.

- A person who will always be in the highest tax bracket.
- A person who will be subject to estate taxes.
- A person who will be in a higher tax bracket in retirement.
- A taxpayer who will not need to withdraw from the Roth IRA for at least 15 to 20 years.

Also, probably the most important criteria is the individual should have sufficient non IRA funds to pay the tax on conversion and not require IRA distributions to fund retirement living expenses. Otherwise, the decision is less clear and requires careful analysis. Since projecting tax rates in retirement is difficult and not knowing what shape our current tax system will be in the future makes the decision to convert or not convert a very inexact science.

If you would like to determine if a Roth conversion makes sense for you, please contact us to review your individual situation.