

2010 – New Opportunity for Roth Conversions

A conversion is a taxable and reportable movement of funds from a Traditional IRA or SIMPLE IRA to a Roth IRA. Beginning in 2010, two of the eligibility requirements for allowing Traditional IRA funds to be converted to a Roth IRA will be eliminated.

- No longer required to have MAGI (modified adjusted gross income) below \$100,000
- No longer required to file a joint tax return, if married

These changes, based on the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), will allow everyone the opportunity to convert Traditional IRA funds to Roth IRAs. The removal of these restrictions also applies to rollovers of eligible employer-sponsored retirement plan funds into Roth IRAs.

As always:

- You must pay tax on all pre-tax funds that are converted to the Roth IRA (included in gross income)
- Converted funds are not subject to the 10% early distribution penalty

Special option for conversions done in 2010:

- You may pay the total tax in 2010, or
- You may divide the tax equally between 2011 and 2012 (check with your tax advisor on scheduled tax rate changes)

Benefits of converting to a Roth IRA:

- Pay tax now vs. later
- Not required to convert entire balance to Roth IRA – you may spread it out over several years
- Earnings are potentially tax-free (if qualified distribution)
- No Required Minimum Distributions (RMDs)
- Estate planning - Roth IRA assets are generally tax-free to beneficiaries

Consult a tax advisor to discuss any tax implications:

- Determine if a Roth Conversion makes sense for you
- Compare your current tax liability to future tax liability (tax rates subject to change)