

perspectives on
**ESTATE &
FINANCIAL
PLANNING**



510 Haight Ave.,
Poughkeepsie, N.Y. 12603
845-473-8261 Fax: 845-454-6614

Reconsidering a Roth Conversion

THE POTENTIAL FOR THE TAX-FREE WITHDRAWAL OF FUNDS FROM A ROTH IRA CAN MAKE ROLLING OVER A TRADITIONAL IRA BALANCE TO A ROTH IRA VERY APPEALING. AND WITH A NEW OPPORTUNITY OPENING UP THAT WILL ALLOW HIGH-INCOME TAXPAYERS TO CONVERT THEIR ACCOUNTS, IT MAY BE TIME TO REVIEW YOUR OPTIONS.

Earlier this year, a new tax law provided that, starting in 2010, taxpayers will be able to convert traditional IRAs to Roth IRAs no matter how high their income. Currently, there is a \$100,000 income limit. How this change will affect you depends on your individual circumstances — your current and likely future income and tax rates, the source of tax money for the conversion, your estate plan, etc.

A Roth's Upside

In general, a Roth IRA is more valuable than a traditional IRA of the same size. The reason: The Roth IRA is immune to the taxes on withdrawals that always shrink a traditional IRA's balance. So, *effectively*, a Roth IRA will result in more *after-tax* dollars than a traditional IRA of an equal dollar amount.

Usually, a person with a traditional IRA can “convert” it into a Roth IRA by paying tax on previously untaxed IRA money. The advantage: No further tax is owed on the IRA money — from the time of conversion, any IRA earnings will be tax free (if all tax law holding requirements are met).

In 2010, even higher income taxpayers can convert to Roth IRAs and receive these benefits, plus the new law lets taxpayers who convert in 2010 spread the income (and tax) from the conversion over the next two years — 2011 and 2012.

**In general, a Roth
IRA is more valuable
than a traditional IRA
of the same size.**

What if you don't have a traditional IRA and your income level prohibits you from currently making deductible traditional IRA contributions that can later be converted to a Roth IRA? Some commentators suggest that higher income individuals should make *nondeductible* contributions to a traditional IRA (no income limit applies). Then, in 2010, convert those contributions and any IRA earnings to a Roth IRA.

The Possible Downside

The potential negatives of a Roth IRA conversion have to be considered, too. Future tax rates are always uncertain. You might convert and *later* find that you've paid more taxes than you would have by staying with the traditional IRA.

Do a Comparison

Some financial estimating can be very useful. You might project the future value of your Roth IRA rollover and compare it to the estimated future *after-tax* value of your traditional IRA. Be sure to include the opportunity cost if you'd use non-IRA funds to pay the taxes on your rollover.

Please call us if you want help looking at the pros and cons of a Roth IRA conversion relative to *your specific situation*.