

# ROTH IRA CONVERSION

## OPPORTUNITY IN 2010 & BEYOND

### NEW ROTH IRA CONVERSION RULES

In 2010, an interesting opportunity is presenting itself to investors and may be of special interest to those who provide retirement services. The opportunity comes in the form of Roth IRA conversion rule changes.

Prior to the beginning of January 2010, Roth IRA conversions were limited to those households with less than \$100,000 of modified adjusted gross income for the year of conversion. However, as a result of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), the income restrictions that prevented individuals from converting Traditional IRAs to Roth IRAs are lifted and special tax alternatives are offered as of January 1, 2010.

### INDIVIDUAL RETIREMENT ACCOUNTS

Traditional, SEP and SIMPLE IRAs are tax qualified individual retirement accounts providing the individual or small business owner with the potential for an immediate tax benefit either in the form of a partial or full tax deduction of the annual contribution amount or by reducing the amount of taxable compensation for that tax year. What this means to the individual is that you may have a tax benefit for the year you made the contribution but when you choose to start taking distributions (hopefully after age of 59½ when no penalties apply) the amount distributed will be considered ordinary income and will be taxed at the then current income tax rate.

Roth IRAs are also individual retirement accounts but unlike the Traditional IRA, annual contributions made to a Roth IRA cannot be deducted at tax time because they are made with after tax dollars. The benefit of Roth IRAs is that distributions may be TAX FREE if certain requirements are met. Those qualified Roth IRA distributions must meet the following conditions to be tax free:

1. Distribution is taken after the 5-year period beginning with the first taxable year for which a contribution was made to the Roth IRA

2. Distribution is taken if one of the following applies:

- After the account owner reaches the age of 59½
- Because the account owner has become disabled
- By the beneficiary of the account after the account owner's passing
- Because it meets the 'First Home Exception' as described in IRS Publication 590

Prior to 2010 owners of tax-deferred IRAs (Traditional, SEP and SIMPLE) had the potential to convert amounts in those accounts to a Roth IRA only if the individual's modified adjusted gross income did not exceed \$100,000 and the individual was not a married individual filing a separate return. Another roadblock in converting to a Roth IRA was the fact that the amount converted needed to be reported for the year the conversion took place meaning the IRA account owner could be potentially liable for paying higher income taxes. Roth IRA conversion changes in 2010 give investors the choice of reporting and paying all taxes on the converted amount for the 2010 tax year or choosing to equally spread income reporting over the 2011 and 2012 tax years.



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### COMPANY PROFILE

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