
Roth IRA Conversion Opportunity for 2010

There is an exciting opportunity available to everyone in 2010 regarding the availability of Roth IRA conversions. A Roth IRA is an after tax savings vehicle that can be used to help fund an individual's retirement. It has become a very popular option to use due to its design and features. If used for retirement, it offers tax free distributions of earnings and principal which could add an enormous benefit down the road to those of us who are worried about how much our tax rates might be one day. The overall consensus is that our tax rates are at an all time low and have a much greater chance to go up versus going down. With all that said, how do you know if a Roth IRA conversion is right for you?

For starters, Roth IRA conversions were only available to the individual that made less than \$100,000 per year. For that reason, the conversion option has flown underneath the radar for some time due to its income limitations and tax liability structure. If a person did choose to convert, they would have to pay federal income taxes on any pre-tax contributions as well as any growth in the investment's value. After all, once converted to a Roth, all of the investment could now be withdrawn on a tax-free basis in retirement. However, paying for the taxes now in the current year has been a problem for some and has kept them from converting their accounts and again was only available to those that earned less than \$100,000 per year. However, new laws put into place in 2006 will allow this opportunity to present itself to those that earn more than \$100,000 per year with the first opportunity to convert in 2010. This change applies to all years beyond 2010 - and the income taxes due on the 2010 conversion can be spread over two years. So the 2010 conversion amount may be included as taxable income in 2011 and 2012 - helping to spread out the tax bite. Conversions in subsequent years are included in income during the tax year in which the conversion is completed. Removing the Roth IRA conversion cap however doesn't mean anyone can fund a Roth IRA. The income limitations are still \$110,000 or more (\$160,000 for married joint filers). However, it does mean that anyone can convert an existing IRA to a Roth IRA. So, what should you do?

The first thing you should do is speak with your advisor. A Roth IRA conversion might not be right for everyone. You should consider your tax liability and the availability to pay for the taxes if you choose to convert all or some of your IRA. Your advisor can work with your CPA or tax preparer to help you determine what is right for you. If you are in need of an advisor or would like to find out more information about this or any other financial topic, please feel free to contact my office and we would be happy to help you in any way we can. As always, we are here to serve you!