

On January 1, 2010, nearly all retirement assets will become eligible to be converted to a Roth IRA including traditional IRAs and qualified retirement accounts such as 401(k) accounts. Currently, this option is only available to taxpayers whose adjusted gross income is under \$100,000. This change will apply in 2010 and all years beyond that, unless new tax legislation is enacted.

Taxes may be one of the greatest retirement expense for many investors. Planning ahead to reduce your tax burden may make sense. This may be a good opportunity to pay lower tax on IRA accounts with reduced values. In general, the conversion makes sense if you will be in a significantly lower tax bracket upon retirement or if you wish to leave a good portion of your retirement plans to your estate.

Unlike Traditional IRAs, distributions from a Roth IRA are tax free and penalty free as long as the assets have been in the account for five years or more and you meet one of the following criteria:

- Age 59 ½ or older (earlier withdrawals may be subject to a 10% penalty)
- Death, disability or certain major medical expenses
- Qualified first-time home purchase
- Long-term unemployment expense (conditions apply)

Key Points to consider before making the conversion:

- The five year holding period applies to Roth conversion amounts as well as regular Roth IRA accounts. You must wait until January 1 of the fifth year after their conversion to have tax-free access to any earnings on your Roth conversion amount.
- Each new conversion begins a new holding period
- If you decide to convert and then later change your mind, you have the option to “undo” the transaction without penalties, subject to certain *time limits* through a recharacterization. For example, if you convert your account and then the balance goes down after a period of market loss, you can recharacterize and put it back into the IRA. The benefit in doing that is to soften the tax burden paid at time of conversion.

Determine how much to convert:

- If all contributions to all IRA accounts have been deductible, then the full amount of the rollover will be taxable

- The tax cost of a conversion is a function of your tax bracket, but a conversion of any size could move you to a higher marginal rate. You may want to consider a partial conversion to minimize your tax rate.

Optimize Tax Payments:

In 2010 only, there is special tax treatment available for investors who convert to a Roth IRA. Under the two – year payment option:

- No federal income tax is due on the converted amount on 2010 tax return
- Half of the tax will be due with 2011 tax return – on April 14, 2012
- The other half will be due with the 2012 tax return – on April 15, 2013
- If there is a possibility of rising tax rates, consider paying it on 2010 tax return.

Conversions in subsequent years are included in income during the tax year in which the conversion is completed.

Comparison of Traditional IRA to a Roth IRA:

	TRADITIONAL IRA	ROTH IRA
Contributions	Tax deductible (Before Tax Deposits)	Non-deductible (After tax deposits)
Earnings	Tax deferred (no tax while accumulating)	Tax free (No tax while accumulating)
Tax Treatment of Withdrawals	Fully taxable at ordinary rate	Tax free (No tax on withdrawals)
Required Minimum Distributions	Subject to RMD starting at age 70 ½	Not subject to RMD
AGI Qualification	In 2009 the rollover is allowed only if your AGI (Adjusted Gross Income) does not exceed \$100,000. In 2010 and after the \$100,000 AGI limitation will no longer apply.	

Roth IRA conversions have many advantages but are not for everyone. If you feel you won't need to tap into IRA assets during your retirement years, converting can provide estate planning benefits. If you would like us to evaluate the conversion opportunity and learn more about this process, please do not hesitate to contact our office.

Sincerely,

ARISTA WEALTH ADVISORS