



To Convert, or Not to Convert ... Can You Answer the Question?

by Cynthia Fick

You are most likely familiar with IRAs, or **I**ndividual **R**etirement **A**ccounts, savings plans where contributions and earnings accumulate tax-deferred until you start withdrawing to help fund your retirement.

An alternative type of IRA, the Roth IRA, was established in 1997. Unlike the traditional IRA, contributions to a Roth IRA are not tax deductible. In the Roth IRA earnings grow tax-free and withdrawals are generally *tax-free*.

A **Roth conversion** is a way to move money from your traditional IRA, pay income taxes now, and benefit from tax-free growth and distributions. All distributions from a **Roth conversion** account (after five years and age 59 1/2) will be tax-free.

While there have always been fewer withdrawal restrictions and requirements with a Roth compared to a traditional IRA, there are new considerations governing conversions effective starting *this* year (2010).

New Considerations

- Starting in 2010, there are no income limits preventing a Roth conversion. In the past, you were ineligible to convert if your Modified Adjusted Gross Income (MAGI) was greater than \$100,000.
- In 2010 *only*, there is a special rule in place allowing you to recognize (report) the amount of the conversion evenly across tax years 2011 and 2012, which defers the taxes owed. Otherwise, you must recognize 100% of the conversion amount in 2010 and pay the additional taxes in 2011.

Other Benefits of the Roth IRA

- There are no required minimum distributions for a Roth account. In a traditional IRA, you are required to start taking an annual distribution at age 70 1/2.
- Distributions from a Roth IRA are excluded from the calculation of the tax on Social Security, which may reduce your future taxes.
- If you don't use your Roth IRA for your retirement, it can grow tax-free and be passed on to heirs

as tax-free income for their lifetime.

Plan Ahead

Even though a Roth conversion may make sense for many people, it's not for everyone. That's why a review of *each* individual's tax situation is important to know if it's right.

To find out how to take advantage of the 2010 Roth IRA special rule and to find out if converting your traditional IRA to a Roth IRA is advantageous for you, call our office for a **FREE** year-end tax review. We are a local investment advisory firm and we can help you **PRE-PLAN** your 2010 Tax Return and beat the deadline for **EXPIRING** tax benefits.

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Printed: Friday, November 19, 2011, Phoenix, AZ, THE AHWATUKEE FOOTHILLS NEWS, Page 3

Friday, November 19, 2010
Ahwatukee, Arizona
THE AHWATUKEE FOOTHILLS
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YOURMONEY

Roth: A way to move money from traditional IRA

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IRA for your retirement, it can grow tax-free and be passed on to heirs as tax-free income for their lifetime.

Plan ahead. Even though a Roth conversion may make sense for many people, it's not for everyone. That's why a review of *each* individual's tax situation is important to know if it's right.

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