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2010 brings a lot of uncertainty within the financial realm with estate planning and sunset provisions in question. One thing that is certain pertains to the Roth IRA. The 2010 Roth IRA conversion is just around the corner. Many still are left confused and not completely certain of what the conversion really means to them. Here is a look at seven things you need to know about the 2010 Roth IRA conversion.

1. It is for Adjusted Gross Incomes Over \$100,000

Whether you are filing as an individual or married filing joint, the adjusted gross income level of \$100,000 will become nonexistent for the Roth IRA conversions of 2010. For higher wage earners, this is a prime opportunity to convert money into the Roth IRA to allow your money to have tax-free growth at retirement.

2. You Don't Have to Wait Until 2010

For wage earners that make less than \$100,000 adjusted gross income, you can actually convert now. With the market being down what it is this might be an excellent time to convert since you will be paying less income tax on the lower account value. By waiting until 2010, and if you are able, you may be having to pay a higher tax bill with market appreciation. If you convert too soon, you can always do an IRA recharacterization by October 15th of year you convert.

3. 2010 is the Year, But Not the Year the Tax is Due

While 2010 is the actual year that you will be able to convert, the income to be claimed can be deferred until 2011 and 2012. Expecting a vast majority to take advantage of this, the IRS has set up special provision on how the tax will be paid. The IRS has granted you the option to claim 50% of the conversion amount as income in 2011 and the remaining 50% in 2012. Keep in mind that this is **only in 2010**. After 2010 the taxes will all be paid in full the following year going forward.

If you elect to pay the tax over the two year period, keep in mind that the tax rate is determined for that year only. Example, in 2011 you will pay the tax based on your tax bracket for that year. If your income were to somehow sky rocket in 2012, then you will be paying more in taxes that year for the conversion.

4. You Can Save Taxes Now

If you know that you are going to convert in 2010, it might make sense to go ahead and start accumulating the tax money now. Since you will be taxed at ordinary income levels you can get a sense of what the tax bill will actually be at the time of conversion. Why not add a little extra to your emergency fund to insure that you have enough to pay the tax bill for this exciting event?

5. Convert But Can't Contribute

Just because the conversion limit of \$100,000 AGI is lifted, doesn't mean that the income restrictions are lifted for new contributions into the Roth. If you're over the phase out limits of the Roth IRA contribution, you will not be able to contribute new money to the Roth. There is a backdoor approach to this and that allows you contribute to a non-deductible IRA and then right immediately after wards convert it to a Roth IRA and avoid all taxable consequence. It's a nice loophole that still allows you to continue to contribute to the Roth and benefit from the tax-free money.

6. Convert IRAs and Old 401(k)s

The 2010 conversion is not limited to just your traditional IRA. If you have any old 401(k)s or any other retirement plans from a previous employer, those will also be allowed to convert as well. It might be a good idea to convert them all.

7. What's the Cost Basis?

If you have an old 401(k) that you have rolled over into an IRA, the question might be what do you use as the original tax basis? In the face of the 2010 conversion or any conversion in general, the basis, or the amount that you will be taxed on, is the amount of the account at the time of conversion. For example, if you had an old 401(k) that was worth \$45,000 and rolled it over into an IRA, and now that IRA is only valued at 25,000, the 25,000 is the amount you'll use for your basis. If you elect to do the conversion at 25,000 and then as the year goes by and the account drops more, the option might be able to do what's called an IRA recharacterization.

If you would like to discuss the advantages and disadvantages related to your particular situation please do not hesitate to contact us. As always we look forward to assisting you with your tax and financial planning strategies in an ever evolving climate.

Sincerely,

Ryan + Ames