

NEW CONVERSION OPTION FOR IRA TO ROTH IRA

\$100,000 Income Restriction Dropped; Ability to Convert Begins with 2010 Tax Year

The 2010 tax year marks the beginning of a new era in retirement savings and planning. Next year, taxpayers will be allowed to convert funds in regular IRAs to Roth IRAs regardless of their Adjusted Gross Income (AGI). The new rules apply to qualified plan funds as well.

Previously, only taxpayers with an AGI of \$100,000 or less could convert amounts in a traditional IRA to amounts in a Roth IRA; married persons filing separately could never convert—until now.

As a refresher, a traditional IRA enables individuals to make contributions to a retirement account and invest those contributions on a tax-deferred basis; tax is not paid on the money until it is withdrawn. No contributions are allowed after the age of 70 ½ and there are penalties for withdrawing the money before the age of 59 ½. All distributions are generally fully taxable when taken, other than “rollover” funds.

Unlike a traditional IRA, there is no tax deduction on Roth IRA contributions. If you follow all the rules, your after-tax contributions grow completely tax free and there are no distributions required during your lifetime. In addition, there is no early withdrawal penalty on distributions of contributed funds, as long as the distributions are “qualified” ones (there are penalties for withdrawing the earnings, however). In general, “qualified distributions” cannot be made until the employee attains age 59 ½, dies or becomes disabled, and cannot be made until the taxpayer has maintained a Roth IRA for at least five

tax years (counting the year the Roth IRA was established).

Paying Taxes Now Versus Later

The elimination of the income restrictions on the conversion of a traditional IRA to a Roth IRA has several implications. With the new rule comes a significant, long-term benefit—you can convert the *tax-deferred* future growth of an IRA into

28 percent, respectively. This scenario, of course, is subject to change.

Generally speaking, converting to a Roth IRA is considered to be a very good estate-planning vehicle for taxpayers who may have a limited personal need for the money now or in retirement, and may want to leave it to their heirs. The money in a Roth IRA can be left in the account

Your tax accountant and wealth management advisor can help you determine if converting your IRAs to Roth IRAs is right for your particular situation.

the *tax-free* growth of a Roth IRA. However, you must pay taxes now on the amount you are converting. The rolled-over amount is normally taxable in the year of the rollover. However, for conversions made in 2010, taxpayers can elect to defer the income recognition, reporting one half of the conversion amount in the first year after the conversion (2011) and the other half in the following year (2012).

Several factors should be evaluated and considered before you decide whether or not to convert your IRA, including how soon you may need the money, how large your distributions will be, your expectations about current and future investment earnings and appreciation, and your current and future tax brackets. The near-term expectation for tax rates is also important. According to present legislation, the top four tax brackets will increase after 2010 from 35 percent, 33 percent, 28 percent, and 25 percent, to 39.6 percent, 36 percent, 31 percent, and

indefinitely. It's important to note, however, that the value of your Roth IRA will be included in your taxable estate upon your death.

Your tax accountant and wealth management advisor can help you determine if converting your IRAs to Roth IRAs is right for your particular situation. They can help you calculate the potential benefit of a tax-free Roth IRA versus a tax-deferred regular IRA, taking into consideration the earnings you will lose as a result of the tax you will pay upon conversion. If a Roth IRA makes sense for you, your advisors can also guide you on whether or not to defer the tax payment. If you are expecting your income to substantially increase in 2012, for example, it may be better to pay the tax now, rather than to defer it a year or two down the road.

There are additional rules and considerations with regard to SIMPLE IRAs, as well as an income inclusion rule that will apply to conversions taking place in 2010; consult your tax professional for advice. ■

For more information on J.H. Cohn's
Tax Practice, [click here](#).

California

San Diego

4180 Ruffin Road, Suite 235
San Diego, CA 92123
858-535-2000

Los Angeles

Good Swartz Brown & Berns,
A Division of J.H. Cohn LLP
11755 Wilshire Boulevard, 17th Floor
Los Angeles, CA 90025
310-477-3722

Warner Center

Good Swartz Brown & Berns,
A Division of J.H. Cohn LLP
21700 Oxnard Street, 7th Floor
Woodland Hills, CA 91367
818-205-2600

Cayman Islands

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

Connecticut

Glastonbury
180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

New Jersey

Roseland

4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

Eatontown

27 Christopher Way
Eatontown, NJ 07724
732-578-0700

Lawrenceville

997 Lenox Drive
Lawrenceville, NJ 08648
609-896-1221

Metro Park

333 Thornall Street
Edison, NJ 08837
732-549-0700

New York

Manhattan

1212 Avenue of the Americas
Suite 1200
New York, NY 10036
212-297-0400

Charles Brucia & Co.,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-682-2459

Frederic Kantor & Company,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-727-2300

Long Island

100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

White Plains

1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700

 **J.H. COHN** LLP
Accountants and Consultants since 1919

877-704-3500
www.jhcohn.com

This newsletter is published by J.H. Cohn LLP for the general information of its clients, friends, and business associates and should not be acted upon without prior professional consultation.