

Licensed:
Florida
Connecticut
Rhode Island

Marc J. Soss, Esquire

Tel: (941) 928-0310
mjs@fl-estateplanning.com
www.fl-estateplanning.com



ROTH CONVERSION OPPORTUNITIES IN 2010 AND BEYOND

January 1, 2010 opens a new window of opportunity for taxpayers to convert an existing Individual Retirement Account (IRA) to a Roth IRA. The conversion can be made without regard to the taxpayer's annual income or marital status.

Since its inception in 1998, U.S. taxpayers have been limited by their "modified adjusted gross income" (MAGI) to converting an existing IRA into a Roth. Prior to 2010, a taxpayer, whether single or married, whose MAGI exceeded \$100,000 was precluded from making an account conversion. Beginning on January 1, 2010, any taxpayer, regardless of his or her MAGI, may convert all or part of an existing IRA into a Roth IRA.

Elimination of the MAGI conversion threshold will benefit both married and same-sex partner couples. The benefit will be achieved by elimination of the MAGI limitation that applied to both single and married taxpayers.

Conversion and Future Year Benefits

The benefits of a Roth IRA include (i) income tax free distributions (as long as the account has existed for at least 5 years); (ii) the account will not be subject to the "required minimum distribution" (RMD) rules (requiring account withdrawals at age 70 $\frac{1}{2}$ years); and (iii) no required account withdrawals during the taxpayer's lifetime. The account may also be utilized as an estate planning tool since it allows taxpayers to accumulate funds tax-free for their heirs.

Conversion Year Disadvantages

The biggest disadvantage to making a Roth conversion is the corresponding income tax bill. Ordinary income tax will be owed in the tax-year of conversion on the converted account's current fair market value, or the amount converted. The conversion will also impact (i) the amount of a taxpayer's Social Security benefits subject to income tax (a higher MAGI equals more benefits subject to taxation); (ii) the amount a taxpayer must pay for his or her Medicare Part B benefits (a higher MAGI equals increased fees without additional benefits); (iii) the 7.5 percent-of-AGI floor for deducting medical expenses; (iv) the AGI amount utilized to phase out a taxpayers' personal exemptions and limit itemized deductions; and (v) state income taxes.

Other Factors for Consideration

Other variables that must be considered in making the decision to convert to a Roth IRA include (i) whether the IRA contains nondeductible contributions; (ii) the designated beneficiaries expected income tax bracket; (iii) The source of the funds needed to pay the applicable income tax on the conversion; and (iv) an alternative use of the funds utilized to pay the income tax on the conversion. The alternative uses may be gifts to children, grandchildren and family members, charitable donations, vacations, etc.

Conclusion

While it is not possible to guess what future income tax rates will be, the additional funding needed for Social Security, Medicare, and other government programs make it an almost certainty that income tax rates will rise in the future. Income tax rates are currently scheduled to rise beginning in 2010 (unless Congress acts before December 31). With a depressed stock market the conversion may additionally be utilized to take advantage of diminished account values.