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# Roth IRA offers tax benefits

**T**hinking about converting your traditional IRA to a Roth IRA? Beginning in 2010, the limits on income and filing status will be

lifted, allowing anyone to convert a traditional (deductible) or a non-deductible IRA into a Roth IRA.

The conversion will be treated as a distribution taxable at your marginal tax rate, although the 10 percent early distribution penalty will not apply. If you convert in 2010, you can delay paying the income taxes to 2011 and 2012.

For example, if you have \$50,000 in a traditional (deductible) IRA and you convert it into a Roth in 2010, you normally would have to pay tax on that \$50,000 by April 15, 2011. But with this special rule, you can defer the tax **ratably** over the following two years, having to pay tax on only \$25,000 each for 2011 and 2012.

There are benefits for converting your non-deductible IRA to a Roth IRA as well. This is good news for taxpayers who are not eligible to contribute to a deductible IRA. They can still make a non-deductible contribution in 2009, then convert it into a Roth in 2010 and pay tax only on the accumulated earnings up to the conversion.

Under the old rules that apply through 2009, individuals whose Adjusted Gross Income (AGI) exceeds \$100,000 and taxpayers using married filing separate status are prohibited from converting their IRA into a Roth IRA. As mentioned earlier, both of these restrictions go away in 2010.

Named after Sen. William V. Roth, Jr., the Roth IRA allows retirees to take as much or as little out of their retirement accounts as they want, without being subject to income tax.

Not only is the principal you contribute into your Roth IRA tax free upon distribution, all of the earnings are also tax free. You must be age 59 ½ and wait for a five-year holding period before distributions become fully tax free.

Another advantage is that there are no minimum distribution requirements upon reaching age 70 ½, so the funds can continue to grow until distributions are wanted. Any undistributed amount passes on to heirs.

Does a Roth conversion make sense for you? It may if you can afford to pay the taxes on the conversion, anticipate that your tax bracket will be higher in future years and have several years before you retire to allow the funds to grow in order to restore what you gave up due to paying taxes on the conversion.

If you think a Roth conversion may be right for you, consult your tax professional to help you plan for the most beneficial choice in your situation.

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