



IRA to Roth Conversion: To Convert or Not Convert, that is the Question?

Much has been written about 2010 as the year to convert your IRA or company retirement plan assets to a Roth IRA. Yes it is true that everyone regardless of income or tax filing status will be eligible to convert to a Roth IRA in 2010, but anyone considering a conversion should do so after considering the following:

- There is no income tax on growth or earnings while in either IRA
- Balances in accounts at death under both will be included in any taxable estate
- There are differences in future contribution deductions between the two
- There are differences in taxation on withdrawals, but same 10% penalty if distributions happen before age 59 1/2
- There are differences in required minimum distributions (RMDs)

When should a person consider converting a tax deferred IRA into a Roth IRA?

- If money invested may not be needed during retirement as a Roth has no RMD at age 70½ and the Roth assets could be passed to spouse or beneficiary income tax free
- If your income tax rate will go up significantly in retirement from the rate you are paying right now
- Your IRA account balance declined significantly recently. Converting a low IRA balance may reduce your future tax burden while allowing recovery inside a tax-free Roth IRA
- If you have the cash to pay higher taxes now on the income incurred at conversion or if want to take advantage of the one time 2010 deferral allowing 50% of income incurred to be recognized in 2011 and 50% in 2012
- Persons uncertain about a conversion because of stock market uncertainty may elect to do a conversion currently and reverse the decision prior to filing their income tax return for the year of conversion

When should a person not consider converting a tax deferred IRA into a Roth IRA?

- A significant reason to not convert is that income taxes otherwise due at death of a tax deferred IRA owner or spouse may be deferred pro rata over the life expectancy of the beneficiary
- If conversion triggers alternative minimum tax (AMT)
- If invested money that you are thinking of converting will be used within next 10 years. If no time is allowed for converted assets to grow, the benefit is eliminated
- If you don't have the money outside of your IRA to pay the higher taxes owed under converting to a Roth

Please consider the above prior to making your conversion election or contact your CPA, Elder Law Attorney, or Financial Advisor to review your specific situation.

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