

## Expanded Planning Opportunities for Roth IRAs

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The Roth IRA is an alternative form of IRA which, if structured properly, allows for tax-free retirement income. The corollary, of course, is that contributions to a Roth IRA are not deductible, but the growth in the Roth IRA after the contribution to the Roth IRA is not subject to any federal income tax at all.

Before 2010, those with modified adjusted gross income of less than \$100,000 could convert a traditional IRA into a Roth IRA, with the traditional IRA owner paying income tax on the amount in the converted IRA. This income restriction has now been lifted, and anyone can convert a traditional IRA into a Roth IRA. In addition, for conversions occurring during 2010, the income from the conversion is not reported in the year 2010; instead, half the income is reported in 2011 and the other half in 2012. Alternatively, the account owner can elect to pay the tax in 2010.

The big question in making this decision is what the tax rate situation will be after 2010. Unless Congress acts to change current law, after 2010 the income tax rates return to pre-2001 levels, with the top bracket being 39.6% instead of the current 35%. Thus, opting to pay the tax in 2010 may be the most advantageous way to minimize the income tax on the conversion.

The contribution limits for Roth IRAs remain in place. However, there are no contribution limits for contributions to traditional IRAs as long as there is sufficient earned income, although higher income taxpayers may not be able to deduct such contributions. Once the contribution has been made to the traditional IRA, it can then be converted to a Roth IRA in a subsequent year.

In order for the distributions from a Roth IRA to be tax free, the amounts in the account must be held in the account for at least five years. Distributions from the Roth IRA can then be made on a tax-free basis if made after age 59 1/2, after the owner's death or disability, used to pay qualified first-time home buyer expenses, or are done in substantially equal periodic payments. Premature withdrawals are subject to a 10% penalty and the earnings subject to income tax.

It is possible to "undo" a traditional IRA to a Roth IRA conversion if done by October 15th of the year following the year of conversion. However, it is important to keep the converted funds separate from the regular Roth IRA funds until after the recharacterization period has passed.

Roth IRAs offer great planning opportunities, even for those who do not currently have a traditional IRA. However, the rules are somewhat intricate, so consult with your attorney or accountant before making decisions concerning your IRAs.

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