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## Two More Reasons to Consider Converting Your IRA to a Roth IRA Before Year End

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This year – 2010 – has been the year of the Roth IRA, with new rules in place permitting taxpayers in any income tax category to convert their traditional IRAs to Roth IRAs. There has been a plethora of discussion and commentary on this issue (see our article on this subject at <http://www.coleschotz.com/assets/attachments/241.pdf>), and generally taxpayers have the decision of weighing whether it is worth it to pay an immediate tax as a result of the conversion in order to come out ahead in the long run as a result of the tax-free growth of the newly created Roth IRA.

As 2011 nears and the prospect of the Bush era tax cuts ending becomes more of a possibility, the case for making a Roth IRA conversion becomes clearer for some taxpayers. If a taxpayer converts in 2010 (i.e., prior to the tax cuts expiring), the taxpayer will pay tax on the conversion at the lower 2010 income tax rates. This assumes the taxpayer will not elect to pay the conversion tax in 2011 and 2012, as is permitted with a 2010 Roth conversion. If the taxpayer does not convert, and is over 70 ½, the required minimum distributions after the tax cuts expire (if they do expire) will be taxed at higher rates. Remember, Roth IRAs during lifetime do not require minimum distributions, so not only will the Roth conversion be taxed at lower rates (assuming the tax cuts

expire), but also no minimum distributions will be required post-conversion during the taxpayer's life.

In addition, taxpayers should consider the effect of the 3.8% surtax imposed on net investment income that was enacted as part of President Obama's new health care law. While IRA distributions are exempt from the 3.8% surtax, distributions from IRA accounts and future Roth conversions can push income over the threshold amounts, causing other investment income to be subject to the surtax. If the Roth conversion occurs prior to 2013, a taxpayer will have one fewer item of income that could push him or her into the 3.8% surtax.

These are just two more factors to consider when making the Roth conversion decision. And certainly keep an eye on the elections tonight – the outcome could certainly play a role in whether the Bush tax cuts will be extended and if the new health care law will be repealed.

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