



An important wealth planning law update from the law firm of Jackson Walker.

March 17, 2011

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ROTH CONVERSIONS: Planning Opportunities Available Until April 18, 2011

By [Matthew S. Beard](#)

Beginning in 2010, all taxpayers were allowed to utilize a previously restricted tax planning tool – the Roth Conversion. A Roth Conversion is a conversion of a traditional IRA or qualified plan to a Roth IRA. Under the current rules, a taxpayer may now have a Roth IRA regardless of his or her income.

IRAs can provide significant income tax benefits. Put simply, a traditional IRA provides tax *deferred* growth for the funds inside the account, and a Roth IRA provides tax *free* growth for the funds inside the account. Please click on the following link for a further comparison: [Roth IRA Conversions in 2010: How To Utilize Roth IRAs In Your Personal Income Tax Plan](#)

However, the amount that can be contributed to an IRA each year is limited. For 2010, your total contributions to IRAs (whether traditional or Roth) generally cannot exceed \$5,000 per person (effectively no more than \$10,000 per couple). Further, the amount that may be contributed to a Roth IRA can be reduced or eliminated depending upon your modified adjusted gross income.

The following are two planning opportunities available to you until April 18, 2011, with respect to Roth IRAs and the 2010 year:

1. **Contribution.** If you make a contribution to a Roth IRA and/or traditional IRA by April 18, 2011, and designate the contribution as being applicable to 2010, then such contribution should be treated as made in 2010. The above timing rule provides you an opportunity to fully utilize the limited amount that can be contributed to your IRAs in 2010 by providing an additional period of time in 2011 to make 2010 contributions.

2. **Recharacterization.** If you made a Roth Conversion in 2010, then the due date to cancel (or “recharacterize”) the Roth Conversion is the due date including extensions for your 2010 tax return. This due date should generally be April 18, 2011. Examples of when recharacterization may be attractive include: (1) you determine after the Roth Conversion that the financial benefit of conversion does not outweigh the tax cost; or (2) the market has significantly declined since the date of the Roth Conversion, and you want to take advantage of the market fluctuations to the extent possible. Please [click here](#) for a summary of planning opportunities with recharacterization (and reconversion).

For more information regarding this matter, please feel free to contact [Matthew Beard](#) at 214.953.5848 or mbeard@jw.com or [Tom Groves](#) at 214.953.5813 or tgroves@jw.com or any member of the Jackson Walker [wealth planning](#) or [employee benefits](#) sections.

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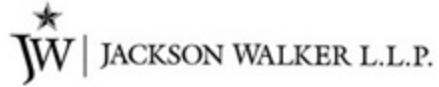
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