



ROTH IRAS: TO CONVERT OR NOT TO CONVERT... THAT IS THE QUESTION

Beginning this year, the income limit for converting a traditional IRA to a Roth IRA has been eliminated. In the past if your Adjusted Gross Income was over \$100,000, then you could not convert. Now that the income limitation has been lifted, many are faced with a decision and it is not often an easy one. The following are some generalizations to consider before making a decision.

- 1) Can you pay the taxes due on conversion from an outside account. If not, then you should **not** convert.
- 2) Does your traditional IRA have many non-deductible contributions. If so, it may make sense to convert.
- 3) Are you in a higher tax bracket now than you think you will be at retirement. If so, it may **not** make sense to convert.
- 4) Is your IRA so large that when you have to begin taking distributions, you will be in a higher tax bracket. If so, converting may be an option to consider.
- 5) Do you want to leave more of your IRA to your heirs. If so, converting is an option since you do not have to take distributions at 70 ½.
- 6) Are you under age 50? If so, you have many years to let your Roth IRA grow tax free, so converting should be considered.
- 7) Did you make many non-deductible contributions to your traditional IRA? If so, these can be rolled to a Roth IRA with no tax consequences; **however**, there are proration rules that must be followed.

Some additional things to know:

- 8) If you convert in 2010, the default is to report 50% of the income on your 2011 tax return and the other 50% on your 2012 tax return. This is the only year that this tax deferral is available. (Thereafter, you can still convert, but the income is recognized on that year's tax return.) However, if you believe that tax rates will be higher in 2011 and 2012, then you can opt to report all the income on your 2010 tax return.
- 9) If you are 70 ½ you must take your Required Minimum Distribution before doing a Roth conversion.
- 10) An Inherited IRA by a non-spouse beneficiary is not eligible for conversion.
- 11) If you are collecting Social Security and/or covered by Medicare, a higher Adjusted Gross Income caused by converting to a Roth IRA could mean that more of your Social Security will be taxed and your monthly Medicare premium could be increased.

This is not an all or nothing decision in that you can convert a portion of a traditional IRA to a Roth. The bottom line is that each case will be different depending upon many factors. You are encouraged to seek advice from your financial or tax advisor.

If you would like more information about this topic, or to schedule an interview with Vicki Schultz please call 775/850-5620 or email Vicki at vschultz@sfginc.com.