ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Top IRA Rulings of 2009 and IRA Planning Opportunities for 2010

A New Era for Roth IRA Conversions

"January 2010 marks the end of the $100,000 income cap on eligibility to convert a traditional IRA to a Roth IRA," says Bruce Steiner, an attorney with Kleinberg, Kaplan, Wolff & Cohen, New York City. "Until now, Roth IRA conversions have largely been limited to some retirees and surviving spouses, because of the income limit. Now that anyone can convert, including higher-income IRA owners, I think this strategy will receive much more attention."

Roth IRA conversions have cons, such as the upfront tax payment and pros, like completely tax-free withdrawals after five years and after age 59½. According to Blanche Lark Christerson, Managing Director, Deutsche Bank Private Wealth Management, New York, conversions will be most appealing to clients who have significant IRAs and would not touch them unless distributions were required, or to those who would owe very little additional income tax on a conversion.

"Roth IRA owners don't have required minimum distributions (RMDs)," Christerson says. "If clients don't need the money in their IRAs and have plenty of cash to pay the tax on the conversion, they might like the idea of leaving their heirs an income tax-free asset."

Even clients who might need their IRAs eventually may value Roth IRA conversions. No one knows what future tax rates will be but, as Steiner puts it, "The upper brackets are more likely to go up than down." Some clients may prefer a partial conversion now, at known income tax rates, which would provide a partial hedge against future tax hikes.

Welcome to 2010!

Roth Conversions for Everyone

One key to most Roth IRA conversions is paying tax with non-IRA dollars to avoid depleting the account upfront, and to avoid a 10% early withdrawal tax if you are under age 59½. "It's truly necessary to crunch the numbers," says Christerson. Once you know how much a client can manage to pay in tax from other sources, you can start to plan on an amount to convert. Also be sure to mention the unique pay-later aspect of Roth IRA conversions in 2010. Clients will split the income evenly between their 2011 and 2012 tax returns unless they elect to pay the tax on their 2010 returns.

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