

## Five Things You Need to Know About the 2010 Roth IRA Conversion

By Dan Greenshields

Have you heard about the 2010 Roth IRA Conversion? Financial pundits are beginning to chatter, so if you've got an individual retirement account (IRA) you're probably in search of the facts and what it means to you. In a nutshell, starting in 2010 everyone is eligible to convert a Traditional IRA to a Roth IRA, and for those who convert in 2010, there is a break on when you can pay the taxes.

Will it affect you? Only you can decide. Start by getting your arms around the changes. Here are five things you need to know before jumping on the bandwagon (by which I mean, "talk with your tax advisor").

### 1. **What is the 2010 Roth IRA Conversion?**

You probably know there are two types of IRAs: Roth and Traditional. They basically differ in when they are taxed. Roth IRA contributions are taxed before they go into the IRA; Traditional IRAs are taxed when the money is withdrawn.

The change is that starting in 2010, there will be no income limits on who can convert from a Traditional IRA to a Roth IRA. Historically the limit for converting has been \$100,000 in modified adjusted gross income. Income limits will still apply however for Roth contributions.

### 2. **Advantages of converting**

Once you convert from a Traditional to a Roth IRA any earnings accumulate tax-free from then on. Plus, there are no taxes to pay in retirement (provided you are at least 59 ½ at retirement and you've had your account for at least five years).

### 3. **Disadvantages of converting**

Converting won't get you a free pass on income tax. But if you convert in 2010, you do have two choices for when to pay. Either pay it all in the 2010 tax year or evenly split the income (and therefore the tax) between the 2011 and 2012 tax years.

### 4. **Who should convert**

As you've probably figured out, not everyone will benefit from converting. But it may make sense for people in these situations:

- You believe your tax rate at retirement will be the same or higher than it is now.
- Retirement is a long way off **and** you can pay the tax now from sources other than your IRA (to avoid the penalty for early withdrawal and the loss of tax-free growth on that amount).
- You plan to leave the Roth IRA to your heirs (tax-free). Unlike traditional IRAs, Roth IRAs don't require you to take minimum distributions at age 70 ½. That means the money may grow tax-free until your heirs are ready to withdraw it.

### 5. **Talk to your tax advisor**

Now you've got the lay of the land on the 2010 Roth IRA Conversion. But everyone's situation is different so before you decide whether it's for you, consult your tax advisor. They'll help you evaluate your own financial situation.