



## Roth Conversions: A Valuable Opportunity?

by Gary L. Miller

Roth IRA conversions, which offer a potential opportunity for substantial wealth accumulation, are now available to all taxpayers, because, beginning in 2010, the modified adjusted gross income limitation of \$100,000 is eliminated. Roth conversions made in 2010 may be especially attractive, for two reasons:

- tax rates are likely to increase after 2010, and
- only conversions made in 2010 are eligible for a special tax deferral option (see below).

A Roth conversion can be made from a traditional IRA, a qualified retirement plan (e.g., a 401(k), profit sharing, 403(b), or 457(b) plan) and a few other plans. Unlike all other qualified retirement plans, a Roth IRA has no minimum required distributions during lifetime. In addition, distributions are tax-free if made more than five years after January 1 of the year in which the taxpayer first contributed to a Roth IRA (or, in the case of a Roth conversion, five years after the conversion), and after the individual attains age 59½ or dies.

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*About the photo: Associate Patrick A. Sadowski at our new Findlay office.*

The best candidates for Roth conversions are taxpayers who

- do not expect their marginal tax bracket to drop significantly in retirement,
- can afford to pay the taxes on the conversion from other assets,
- do not expect to spend any or much of the IRA during retirement, and
- will leave the IRA to family members who will stretch distributions.

For 2010 conversions only, the taxpayer may (but is not required to) report the income in two equal installments in 2011 and 2012.

A taxpayer may “recharacterize” a Roth conversion (i.e., transfer it back to a traditional IRA) at any time prior to the due date (plus extensions) for filing the individual's federal income tax return (therefore, generally October 15, 2011, for 2010 conversions). A recharacterization may be appropriate if there is a drop in value of IRA investments after conversion, or if any of the assumptions (e.g., tax brackets) on which the Roth conversion decision was made change. This recharacterization option essentially gives the taxpayer a “free look.”

We are available to meet with any individual to discuss this opportunity, or we can make a presentation on this topic to any professional or civic group. Also, we have software capable of analyzing, given any set of assumptions, whether a Roth conversion is advantageous for a specific individual.



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*Mr. Miller is a member of the Firm and a former financial planner who practices in the areas of estate planning, probate, elder law, business law, taxation and qualified retirement plans. He can be contacted at our Toledo office (419-241-6000).*

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