

November 24, 2009 – 2010 Roth IRA Conversion Opportunity

*To convert, or not to convert: that is the question
Whether 'tis nobler in the mind to suffer
The slings and arrows of outrageous taxation now,
Or to take arms against a sea of tax troubles in retirement*

Not sure if Shakespeare would approve of our butchery of Hamlet but traditional IRA and 401(k) owners who make over \$100,000 in AGI need to determine if they should convert all of, or a portion of, their accounts to a Roth IRA in 2010. Thanks to the Tax Increase Prevention and Reconciliation Act of 2005, higher paid individuals will be able to take advantage of an opportunity once limited to taxpayers with an AGI of less than \$100,000. Why is the government doing this? They need money!

Currently, taxpayers can convert traditional IRAs and 401(k)'s to a Roth IRA as long as their adjusted gross income is under \$100,000. In 2010, the \$100,000 limit is permanently eliminated so everyone can make the conversion. The catch is the amount converted will be taxed as ordinary income in the year of conversion. With one exception; for 2010 conversions only, taxpayers can elect to split their tax liability to half for 2011 & half for 2012.

But a potential problem with this is the 2001 Bush tax cuts were only for 10 years & sunset in 2011. We do not know what tax rates will be in 2011 and 2012. Anybody want to guess if they will be higher? The Federal Debt is now \$12 trillion; our government can't control themselves; and spending is out of control. They have to raise our taxes. This needs to be considered prior to making the conversion.

Factors to consider when determining if a conversion is right for you in 2010 are:

- Investment time horizon
- Current marginal tax bracket
- Anticipated retirement tax bracket
- What will taxes rise to in the future
- Are there available assets outside the IRA to pay the taxes after the conversion
- There are no required minimum distributions for Roth IRA's for a surviving spouse
- This is a good hedge against rising income tax rates in the future
- For those who do not need IRA money in retirement, this is great for beneficiaries
- This can reduce the size of your taxable estate
- Tax diversification
- Social Security planning
- For those who were not clients of Fulkerson Capital Management, there is a lower cost of conversion because account values are significantly lower after the market crash

There is no one right answer if someone should convert to a Roth IRA. There are a lot of moving parts and everyone's situation is unique. Contact me if you would like a free consultation to review your particular position in life to see if this is best for you.

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