A Compendium on Achieving Financial Independence

EnRich Financial Partners
ALIGNING YOUR MONEY WITH YOUR LIFE

Christopher D. Rich, CFP®
Elaine B. Rich, CFP®

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Preparing for the 2010 IRA-to-Roth IRA Conversion Opportunity

by Elaine B. Rich, CFP®

Happy New Year! We write to you this January to highlight what could be a significant planning opportunity for many of our clients. Beginning this year, taxpayers will be able to convert their traditional Individual Retirement Account (IRA) to a Roth IRA, regardless of their income level. This new conversion option presents both planning opportunities and challenges. The purpose of this letter is to review some of the basic benefits of Roth conversion and discuss why this may be advantageous for you. These opportunities, however, are too broad-based to effectively determine whether they will directly benefit you. Your personal financial situation will have more of an impact on the decision whether or not to convert.

What has changed?

* Before 2010, only individuals with modified adjusted gross incomes (AGI) of $100,000 or less could convert amounts in their traditional IRA to a Roth IRA. This income limit on conversions of traditional IRAs to Roth IRAs has been eliminated completely as of this year.

* Taxes due on the income generated from Roth conversions prior to 2010 were always due and payable in full by the tax return deadline. In contrast, in 2010 and only 2010, conversion will be deferrable until 2011 and 2012.

The basic benefits of owning Roth IRAs over traditional IRAs:

* Roth IRA distributions are tax-free if they are qualified distributions. This provides a source of tax diversification in retirement. To be qualified, they must be made after a five-year holding period has passed and after the accountholder reaches age 59 1/2, or on account of death, disability, or the qualified purchase of a first home.

* Roth IRAs are not subject to the required minimum distribution (RMD) rules that apply to traditional IRAs. Therefore, a Roth IRA accountholder who reaches age 70 1/2 does not need to begin taking distributions; instead, the funds can continue to grow tax free until they are needed or are passed on to the heirs of the accountholder.

An IRA to Roth IRA conversion is ideal for individuals who:

* Can afford to pay the tax on the converted amounts with funds outside their IRA;

* Do not need IRA funds to live upon;

* Anticipate being in a higher tax bracket in the future than they are currently in; and

* Have a significant amount of time before reaching retirement to allow assets to grow tax-free and recoup dollars that may have been lost due to the conversion tax.

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Important considerations:

* An IRA conversion is treated as a taxable distribution, taxed as ordinary income at your marginal tax rate.

* Marginal income tax brackets may rise after 2010. Consequently, if you do not want to take the chance that your income tax rate will be higher in 2011 and 2012 than in 2010, you may want to elect to pay the full tax on the Roth conversion in your 2010 income tax return, at 2010 income tax rates.

Changes make Roth Conversion Attractive

Wisconsin slow to adopt provisions

Staying in touch

6425 Odana Road
Madison, WI 53719

Phone: 608.275.3442
Toll-Free: 888.204.1557
Fax: 608.275.3445

www.enrichpartners.com
info@enrichpartners.com

Financial Planning and Market Commentary

* As of this date, the State of Wisconsin has not adopted the 2010 Federal Roth IRA conversion provisions. Therefore, until the Wisconsin legislature addresses this issue:

  Wisconsin will not permit the special income tax deferral on 2010 conversions.

  Additionally, persons who make the conversion and who have modified adjusted gross income over $100,000 will be subject to certain Wisconsin penalties.

* Should the market value of your converted funds decline, you do have the option of performing a Roth recharacterization. You have until October 15th of the year following the year of your conversion to recharacterize back to a traditional IRA and therefore negate any taxes due on the conversion.

Staying in touch regarding this planning opportunity as the year progresses: *ACTION ITEMS*

* *EnRich Financial Partners* -The Wisconsin legislative session that begins this month has added to their agenda the issue of adopting the Federal provisions. We are hopeful that they will address and adopt some or all of the Federal provisions. We will keep you posted on the status of their decision as it could impact a number of our Wisconsin clients.

* *EnRich Clients* - If we have yet to schedule our next review meeting or address this particular opportunity with you personally, please give us a call to schedule a time to do so.