CHERNOFF DIAMOND

Benefits and Risk Management Consultants

IRA ➡ ROTH CONVERSIONS IN 2010

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STARTING IN 2010, ALL TAXPAYERS (INCLUDING THOSE WITH ADJUSTED GROSS INCOME OF MORE THAN $100,000) WILL BE ALLOWED TO CONVERT A TRADITIONAL IRA (OR BY EXTENSION, 401(K), PROFIT SHARING OR PENSION ACCOUNT) TO A ROTH IRA. WHAT ARE THE IMPLICATIONS AND WHY CONSIDER THIS?

- The difference between the two types of accounts is in the tax treatment of the money when it is put in and when it is taken out.
- Contributions to a traditional IRA are tax-deductible. Distributions from a traditional IRA are taxable as you receive them and at the tax rates then applicable. A traditional IRA also has required minimum distributions after age 70½.
- Contributions to a Roth IRA are not tax-deductible. Distributions from a Roth IRA are not taxable. There is no minimum distribution requirement with a Roth IRA.
- If you convert a traditional IRA (or by extension a 401(k), profit sharing or pension account) into a Roth IRA, the effect is to convert from a tax-deferred arrangement to a tax-free scheme. Ordinary income tax will be due on the amount that is converted. For conversions completed in 2010:
  - the tax can be paid at 2010 rates as if received in 2010 or,
  - The tax can be deferred and will be calculated and due as if the income was received in calendar years 2011 and 2012.

Removing the Roth IRA conversion cap doesn't mean anyone can make fresh contributions to a Roth IRA, but it does mean that anyone can convert an existing IRA to a Roth IRA. Thus, there is a way for all taxpayers - regardless of income - to take advantage of the change in the tax code: Fund a traditional IRA now. Even if you don't qualify to make Roth IRA contributions or traditional IRA contributions on a pre-tax basis, you can still make after-tax contributions to a traditional IRA. If you invest in a non-deductible IRA in tax years 2006 through 2010, you can convert those IRAs to Roth IRAs in 2010.

Most investors shy away from making non-deductible contributions to an IRA because they are not tax deductible, the investment growth is fully taxable, and because they are subject to minimum distribution rules they offer only a minimal tax shelter. However, by converting these non-deductible IRAs to Roth IRAs in 2010 many of the disadvantages disappear.

Chernoff Diamond professionals have the expertise and systems necessary to prepare a Roth conversion analysis, and the experience to deliver business-smart advice.

ADDITIONAL INFORMATION

For questions concerning information contained in this Insights, please contact Chernoff Diamond Retirement Plan Services at rothconversions@chernoffdiamond.com. Information contained in this ***Insights*** is not intended to render tax or legal advice. Employers should consult with qualified legal and/or tax counsel for guidance in respect of matters of law, tax and related regulation.

Chernoff Diamond provides comprehensive consulting and administrative services with respect to all forms of employee benefits, risk management and qualified and non-qualified retirement plans.

For additional information about our services please contact us at (516) 683-6100 or via e-mail at mail@chernoffdiamond.com.