

Roth Conversions: Protect IRA/401(k)s From Future Higher Taxes

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When meeting with your financial advisor before the end of this 2010 you should review your options regarding your IRA and 401(k) funds. You may want to discuss the benefit of converting your accounts to Roth IRAs. By converting your retirement funds in 2010, taxes on those funds are due in 2011 and 2012 (2010 and 2011 tax years).

In the past, Roth conversions were limited to individuals with less than \$100,000 in annual income. Thanks to 2006 tax laws, in 2010 everyone is allowed to participate. This is a rare opportunity for those who fear that taxes will be higher in the future. Regardless of whether or not you think taxes will go up in the future, there are still significant advantages for acting now.

- **Maintaining Control Of Your Taxes**

Many people took advantage of their employer plans or the IRA rules by using the Retirement Account laws for many years to accumulate wealth for their retirement. In some cases people discover that they do not need the money in their retirement plan to maintain their lifestyle; nevertheless, upon reaching age 70 ½ individuals must take Required Minimum Distributions (RMDs) from their retirement accounts. Roth conversions give the account owner some control over when taxes are paid. If tax rates increase as many people speculate, paying taxes on retirement balances now would be like paying them when they are on sale!

- **Possible Loss of Opportunity**

I am not aware of any plans by the federal government to change Roth IRA rules; however it is possible that the government could restrict or even prohibit new Roth IRAs in the near future. I believe that if a large amount of Roth conversions take place in 2010 and the IRS lost a substantial amount of future tax revenue, the Roth IRA could end up on the endangered list.

In the last two years the federal government has spent unprecedented amounts of tax dollars which leads me to believe that people should plan for higher taxes and higher inflation. I recommend to my clients that they consider the Roth conversion if they believe their need for future income is unlikely. Of course, it is not for everyone, and there are a lot of factors to take into account. The rules for conversions can be complex, and state income-tax rules may differ from federal rules. Three major areas to examine when considering a conversion are your income, your age, and your current and anticipated future tax brackets. Please consult your financial advisor to determine if a Roth conversion is suitable for you.*

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