

# AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

## FINANCIAL & BUSINESS INFORMATION

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### Should You Roth-ify Your IRA?

Although converting a traditional to a Roth IRA can be advantageous, in many cases, your income level and / or your filing status will not permit conversion. However, you may want to plan ahead in light of recent legislation.

#### Elimination of Restrictions

Beginning in 2010, traditional IRAs can be converted to Roth IRAs *without regard to filing status or income level*. Given the elimination of these limitations, if you want the advantages of a Roth IRA (no minimum required distribution, tax-free distributions, ability to leave the funds tax-free to another generation upon death), you may want to maximize the balance in your traditional IRA in preparation for conversion to a Roth IRA beginning in 2010. Even if you cannot make deductible traditional IRA contributions, it could make sense to make non-deductible contributions in order to build the account. (Note that SEP and SIMPLE IRAs can also be converted.)

#### 2010 Conversions More Attractive

A special provision allows taxpayers who convert in 2010 to spread the income and resulting tax on the converted funds over two years – 2011 and 2012. Normally, the income resulting from a conversion is includable *in full* in the year of conversion. For example, assume a taxpayer converts a \$20,000 traditional IRA (consisting of untaxed contributions and earnings) to a Roth IRA in 2010. The \$20,000 conversion will be taxed \$10,000 on the individual's 2011 tax return and \$10,000 on the 2012 tax return (unless he elects to report all of the conversion income in 2010).

Note that any nondeductible contributions made to your traditional IRA have already been taxed, so they will not be taxed at the time of the conversion. If you have more than one traditional IRA and don't convert all of them, then the nontaxable part of your conversion distribution is determined by a formula based on the ratio of your *total nondeductible contributions* (less any nontaxable distributions previously received) to the *total balance of all of your traditional IRAs*. This prevents individuals from getting any advantage of taking the distribution out of the IRA that had the most nondeductible contributions.

Please contact us to review your specific situation to ensure that your plans give the results you want.

**Reminder: If you make estimated tax payments, the first estimate for 2007 is due April 17!**

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