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IRAs: Important Steps to Take for 2009 and Beyond

It's not too late to late to use IRAs to do some last minute 2009 tax planning! If you anticipate your 2009 income and that for future years to be significantly lower than in the past, consider converting traditional IRAs to increase your income for this year.

<u>How does this work?:</u> If your modified adjusted gross income (MAGI) is $100,000 or less, you can increase your income by converting your *traditional* IRA (or a portion thereof) to a *Roth* IRA. This is a particularly good strategy to apply if you are in the lowest tax brackets. Although you would have to pay the taxes on the amount of the withdrawal from the traditional IRA (specifically the portion that represents pretax contributions and earnings), a Roth IRA grows tax-free! Also, beneficiaries of Roth IRAs can make withdrawals over their own life expectancy (as opposed to that of the decedents).

It may still be a good idea to contribute to a traditional IRA even if your 2009 MAGI exceeds $100,000. Note that 2009 contributions can be made through April 15, 2010; however, contributions may not be deductible if you or your spouse are already in a retirement plan.

<u>2010 Roth IRA Changes:</u> Starting January 1, 2010, the income and filing status restrictions related to Roth IRA conversions are permanently eliminated so anyone can convert traditional IRAs or other retirement plans to Roth IRAs if they are willing to pay the taxes due on the amount converted. For 2010 conversions *only,* taxpayers can either report the entire amount of the conversion on their 2010 income tax return <u>or</u> they can ratably spread the income over their 2011 and 2012 tax returns. Note that any non-deductible traditional IRA contribution will offset the taxable amount of the conversion.

<u>Change Your Mind?:</u> If you do a Roth IRA conversion and later decide it is not to your advantage, you can "undo" the conversion (known as a recharacterization). A taxpayer has until October 15 after the year of conversion to make the recharacterization. A recharacterization allows taxpayers to review their decision in hindsight and reverse the conversion if necessary.

It is important to understand the type of IRAs you have or may be eligible for (traditional or Roth) and whether they are deductible or nondeductible IRAs in doing tax planning.

You should also consider that -

- Beneficiaries are an important IRA issue (as discussed in our last Business & Financial Information email).
- For 2009, a taxpayer at least age 70 ½ can still contribute up to $100,000 from his IRA <u>directly</u> to a qualified charity without paying tax on the money.
- Withdrawals from inherited traditional IRAs *can be stretched* over the life expectancy of the beneficiary with proper planning prior to inheritance of an IRA.

Note: If you make estimated tax payments, the final 2009 estimate is due January 15, 2010!