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2010 Roth IRA Conversions

By Arthur Rosenberg

Please consult your tax and investment professionals to determine whether a conversion is right for you.

In this article I'm going to discuss some of the changes that go into effect in 2010. Under the current tax law for Roth IRA conversions- which was written in 1997 - individuals were permitted to convert a traditional IRA to a Roth IRA. There were only two stipulations that taxpayers had to worry about - paying taxes on the converted money and an income limit which determined eligibility to convert.

Converting an IRA to a Roth- With a traditional IRA money can be placed into the account on a pre-tax (tax deductible) and after-tax basis. That investment is allowed to grow on a tax-deferred basis until withdrawn in retirement. If an individual wanted to convert a traditional IRA to a Roth IRA they had to pay federal income taxes on any pre-tax contributions as well as any growth in the investment's value. Once converted to a Roth, all of the investment could now be withdrawn on a tax-free basis in retirement. To be tax free, the withdrawal must be five years after the establishment of the Roth.

Income Limits on Conversions- Unfortunately, that same 1997 tax law also contained a provision limiting who could make a conversion. Upper income taxpayers - those with adjusted gross incomes of more than \$100,000 - whether single or married were not eligible to make such a conversion. In addition, if you earned \$110,000 or more (\$160,000 for married joint filers) then you also weren't eligible to contribute to a Roth IRA. These two tax laws effectively precluded upper income taxpayers from enjoying the benefits of a Roth IRA. They couldn't convert their traditional IRA to a Roth, and they could not fund one either.

IRA Conversions in 2010- Starting in 2010, taxpayers with modified adjusted gross income of more than \$100,000 will be allowed to convert a traditional IRA to a Roth IRA. This change applies to all years beyond 2010 - and the income taxes due on the 2010 conversion can be spread over two years. So the 2010 conversion amount may be included as taxable income in 2011 and 2012 (half in each year) - helping to spread out the tax bite. Conversions in subsequent years are included in income during the tax year in which the conversion is completed. Removing the Roth IRA conversion cap however doesn't mean anyone can fund a Roth IRA, but it does mean that anyone can convert an existing IRA to a Roth IRA.

Before deciding the period in which to pay the tax, consider the following. Why did the government put this into effect? I believe it is to encourage those who may not think of converting, to convert now and pay the tax in 2011 and 2012. Delay the payment of the tax is normally a good incentive. HOWEVER, one must consider what the tax rates will be in those years.

In 2010, as it stands at the present, the maximum tax rate is 35%. However there certainly will be changes along with the Health Care Bill. If 2010, 2011 and 2012 rates will be the same, then you should probably spread the payments to 2011 and 2012. If, on the other hand, the maximum rate remains at 35% in 2010 and then goes to something like the old 39.6% in 2011 and 2012, you have got to think twice about delaying the income.

Please consult your professionals about the advisability of doing this. In the next Newsletter and I will discuss a very interesting quirk in the tax law that could work to your distinct advantage.

HINT HINT HINT

Although not the answer I'm looking for, we did have some interesting submissions. A number of people submitted that the colors are in alphabetical order. The most interesting one was that these are the colors of the Olympic Flag.

So now to repeat the original question: What is the significance of the colors **Blue**, **Green**, **Red**, **White** and **Yellow**, with those five colors being EXACTLY in that order. (Answer is a little controversial. Just get real close.)



The reason that the answer could be a little controversial is that there is other information that the colors are actually BLUE, GREEN, ORANGE, RED, WHITE AND YELLOW. Yes, there are some reports that there is a sixth color, ORANGE in-between GREEN and RED. I'm interested in learning if this hint is enough. If not I'll just have to give another.

I have told NO ONE the answer! If you have it figured out, please call me directly at 215-260-6666. The first caller with the correct answer, wins. If I'm not available, I will be very shortly but leave your name and your answer on my voice mail.

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The winner will receive the original Steven Rosenberg pottery pictured above. (Card is in the picture so you can judge the size of the vase.) I remember years ago it took months for someone to get the correct answer to my contest questions. I certainly hope I have continued to defeat the search engines with this one.

Our Box Number

Please remember that our Post Office Box Number has changed. We changed the Box Number from Box 4100 Rydal Pa. to Box 29 Jenkintown Pa. All other parts of the address remain the same. (Zip, etc.)

It is not necessary to change the address on envelopes you already have, since our mail has always gone to the Jenkintown Post Office first and then to the Rydal Post Office. The hours have been much reduced in Rydal and it appears that the station may close in the near future. We now can get the mail earlier in the morning in Jenkintown.