



Time for a Roth IRA Rollover?

2010 presents a unique opportunity to get retirement assets into a Roth IRA account. Before this year, only taxpayers with adjusted gross incomes less than \$100,000 were permitted to move assets from another qualified retirement account into a Roth IRA. That income limit is removed for 2010, so any taxpayer can now make this change.

By Michael C. Walch

Advantages of a Roth IRA:

- Earnings within the account are not subject to tax.
- Withdrawals from a Roth IRA are not taxed — unlike other types of retirement accounts.
- Roth IRA owners are not required to start making required minimum distributions at age 70.5, which is usually required for other retirement accounts.
- Inheritors of the account can also enjoy tax-free earnings and withdrawals, though they do have to start making regular withdrawals.

The downside of a Roth IRA rollover is the rollover amount is fully taxable in most cases. This means that you get to pay tax now for the privilege of enjoying tax-free appreciation and withdrawals later.

Consider these issues when deciding if a Roth IRA rollover is right for you:

- You can pay the tax on the rollover amount with other funds. If you can do this, the entire rollover amount goes into the Roth IRA, increasing the amount building up tax-free in the account.
- If you anticipate having a higher tax rate in retirement than you do now, a Roth IRA is a big advantage.
- The farther you are from retirement, the more years your account will have to recoup the tax hit on the rollover amount.
- The Roth IRA can be a method of passing on tax-free income to your heirs.

There is another benefit of taking advantage of this rollover opportunity in 2010. Taxpayers making a rollover from another retirement account into a Roth IRA account in 2010 can elect to pay the tax on the rollover half in 2011 and half in 2012, or all in 2010. While it would usually be preferable to defer a tax obligation for as long as possible, income tax rates are scheduled to rise significantly in 2011, and the recent health care legislation includes an additional surtax on investment income for higher-income taxpayers. Based on anticipated income and tax rates for 2010 and 2011, a taxpayer can make a reasoned estimate of which years would be best to recognize the tax on the rollover.

The Roth IRA rollover requires compliance with a number of complex rules in order to minimize the amount of tax involved in the transaction. Still, this is a rare opportunity to enhance your retirement assets and is worth discussing with your tax adviser. ☺

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