

The "Daily Plan-It™"

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Your Client's Individual Retirement Account Just Got a Shot in the Arm

Considering the turmoil of our current economic climate, it's not often that I get to share a positive with you and your clients. I'm happy to report that there is good news on the horizon.

On Jan. 1, 2010, the federal government will end the income limits that have prevented many people from converting their traditional IRAs or employer-sponsored retirement plans to a Roth IRA.

The Wall Street Journal recently reported that this change "will widen the entryway to one of the best deals in retirement planning. With a Roth IRA, virtually all income growth and withdrawals are tax-free."
(<http://tinyurl.com/l66zfo>)

Depressed Values = Lower Taxes

This change comes at a time when many IRAs have nosedived in value, meaning taxes on such conversions will likely drop. Since income tax rates at all levels are expected to rise in the coming years, it should be no surprise that owning an account that is safe from tax increases might appeal to future retirees.

Currently, individuals earning more than \$120,000 in modified adjusted gross income cannot contribute. For couples who file joint tax returns, their income limit is \$176,000.

It's important to know that while the limits for **funding** a Roth will stay the same, it's the rules for conversion that are changing on Jan. 1. The income limit for Roth conversions will be eliminated, as well as restrictions on spouses filing separate tax returns.

This should make it easier for higher income earners to invest through Roth accounts. The change also enables more retirees who rolled over holdings in 401(k)s and workplace savings plans to convert to a Roth.

What Are the Advantages?

For the most part, withdrawals are tax-free if your client holds a Roth IRA for at least five years and is at least 59 ½ years old. Unlike a traditional IRA, there are no required distributions that force your client to tap into the account upon reaching 70 ½ years of age.

Your client's beneficiaries won't owe income tax on withdrawals, but they must take distributions, and the assets are included in their estates.

Hold Your Horses!

Clients must pay taxes on a Roth conversion by following the IRS's pro-rata rule. The IRS requires your client to add the balance in all of his IRAs (for example, \$250,000) and then divide the nondeductible contributions (in this example, \$40,000) by that balance. This formula helps clients know the percentage (16% in this case) of any conversion that's tax-free.

Using the example numbers above, if your client wanted to convert \$30,000 of his two IRAs to a Roth, the amount of the conversion that would be tax-free is \$4,800 (\$30,000 x 0.16).

If your client expects to make less income during retirement than before, and tax rates stay about where they are today, then a Roth conversion might not make sense.

Out of space considerations for this article, I've had to oversimplify this strategy and the examples above. If you have follow-up questions or a specific concern, please don't hesitate to contact our office.

Workshop Schedule

The Truth about Estate Planning
Usually Tuesday nights, 7:00 pm
(Please call for current dates)



IRA Preservation Planning
Learn how to properly protect your IRAs and what the IRA Preservation Trust can do!
(Please call for current dates)

On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005 (DRA 2005), which included the most sweeping changes to [Medicaid](#) laws ever enacted.

Medicaid Planning Workshop
The new Medicaid laws and some of the planning options that are still available, even in light of these sweeping changes.
Usually Tuesday nights, 7:00 pm
(Please call for current dates)

Registration: Contact Mary Lang at (847) 367-4460
<http://eblawgroup.com>

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We invite you also to direct your clients to
http://eblawgroup.com/FAQ_medicaid.htm
for more information on Medicaid Planning.