WEIGHING THE OPTIONS: SHOULD YOU CONVERT A TRADITIONAL IRA TO A ROTH IRA IN 2010 AND BEYOND?

Beginning in 2010, investors of all income levels will be able to convert a Traditional IRA to a Roth IRA. Prior to 2010, only households with adjusted gross income less than $100,000 may convert their Traditional IRAs to Roth IRAs. The ability to make new contributions to a Roth IRA, however, will still be subject to certain income limitations. In 2009, individuals earning more than $120,000 and joint filers earning more than $176,000 are ineligible to contribute to a Roth IRA. Thus, once converted, some individuals may not be able to make additional contributions to their Roth IRAs.

Why Convert? The Benefits of a Roth IRA

Although the Traditional IRA and the Roth IRA both offer the benefit of tax-sheltered growth, the Roth IRA offers several advantages over the Traditional IRA.

1. Withdrawals from a Roth IRA are income-tax-free if you are age 59 ½ or older and have had a Roth IRA for at least five years; whereas, in the case of a Traditional IRA, withdrawals are subject to ordinary income tax.
2. There are no required minimum distributions from a Roth IRA during the lifetime of the owner; whereas, the owner of a Traditional IRA must begin taking distributions at age 70 ½.
3. Beneficiaries of a Roth IRA can make tax-free withdrawals ratably over their lifetimes; whereas, beneficiaries of a Traditional IRA must take fully taxable withdrawals.

Tax Consequences of Conversion and IRS Incentives

The conversion does come at a cost. Conversion from a Traditional IRA to a Roth IRA is a taxable event, and the total amount converted is subject to income tax in the year of conversion. However, for 2010 only, a special incentive exists—taxpayers are given the option of reporting the income in 2010 or spreading it out evenly over 2011 and 2012, effectively deferring the payment of tax until three years after the conversion because the 2012 tax return is not due until 2013.

Is Conversion Right for You?

Several tax and estate planning considerations must be taken into account when determining whether conversion from your Traditional IRA to a Roth IRA is right for you. If you are temporarily in a lower tax bracket or anticipate a higher tax bracket during retirement, conversion to a Roth IRA may be right for you. You are a prime candidate for conversion if you can pay the tax resulting from conversion from sources other than the IRA, because conversion will enable you to invest the entire converted amount tax-free for the rest of your life. Also, if you are trying to reduce your taxable estate or want to leave tax-free assets to your children, conversion to a Roth IRA may be the right move for you.

On the other hand, if you think your tax rate upon retirement will be lower than your current tax rate, or if you do not have, or wish, to use funds outside of the IRA to pay the tax resulting from the conversion, conversion to a Roth IRA may not be attractive. Also, if the income resulting from conversion will move you into a higher tax bracket and, as a result, prevent you from receiving certain tax benefits, conversion to a Roth IRA may not be for you.

As you can see, the decision to convert your Traditional IRA to a Roth IRA is fairly complicated and requires balancing several interrelated factors. Most importantly, the final decision in many cases may have a significant impact on your estate plan. We can help you make the proper decision that compliments your estate plan, including understanding how choosing to pay income tax now affects your estate tax and the amount of "net" assets inherited by each of your beneficiaries; properly coordinating the allocation of the estate tax payment burden among your various assets and beneficiaries; analyzing any generation-skipping transfer tax implications of your decision; and custom drafting your IRA beneficiary designation to avoid the all-too-common problem of the IRA sponsor-provided "standard beneficiary form" not accurately carrying our your intentions.

If you would like our seasoned advice on this important issue of IRA conversion, backed up by a very sophisticated analytical software package, we would be most pleased to assist you. Call your CPM lawyer, or Rich Seils at (614) 628-0810, to arrange an appointment. In order to make this appointment as productive as possible, please fill out the attached worksheet and send it to your CPM attorney prior to meeting.

CARLILE PATCHEN & MURPHY LLP
ROTH IRA CONVERSION INFORMATION WORKSHEET

Beginning in 2010, anyone may convert a Traditional IRA to a Roth IRA, regardless of household income. Several considerations must be taken into account when determining if conversion is right for you. As your estate and business planning attorneys, we are well-positioned to help you make the decision that is consistent with your estate and business plan and most advantageous to your overall financial well-being. If you would like our advice, please call your CPM attorney to make an appointment. We have structured a modest fixed fee for this important service. You should fill out this form as completely as possible and bring it to your first meeting.

IRA Owner

Name:____________________________

Date of Birth:______________________

Phone Number:_____________________

Retired? Yes / No

If No, Anticipated Age @ Retirement: ____

Spouse's Name:___________________

Spouse's Date of Birth:_____________

Children's Names and Dates of Birth:

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IRA Information

Current Traditional IRA Balance: $___________

Primary Beneficiary (include date of birth): ____

Contingent Beneficiary(ies) (include date of birth): ___________________________________

___________________________________ ___________________________________

Anticipated Taxable Income

2010 $_______________ 2011 $_______________ 2012 $_______________

Assets & Liabilities

	Estimated Present Market Value		
	(IRA Owner)	(Spouse)	(Joint)
Cash			
Bank Accounts (Checking, Savings, CDs)			
Stocks & Bonds			
Real Estate			
Business Interests			
Other Retirement Plans			
Other Property			
Life Insurance (Is any of it in Trust?)			
Notes, Mortgages Payable & Other Debts			
Totals			

CPA's Name ________________________________ Phone #: ______________________________

Financial Advisor's Name ____________________ Phone #: ______________________________