

Roth Conversion



If you are not eligible for a Roth IRA conversion since you exceed the \$100,000 income cap, you will be able to convert to a Roth IRA in 2010 when the income cap expires. Those individuals eligible should follow the following steps in making non-deductible IRA contributions in anticipation of making a Roth IRA conversion in 2010:

1. When making a non-deductible IRA contribution, you should submit form 8606 to the Internal Revenue Service each year you make a contribution. This form documents that the contribution was made with non-deductible amounts.
2. In 2010 you may perform a Traditional IRA to Roth IRA conversion. At that time you will incur income taxes on your deductible contribution amounts as well as all investment growth. This tax on deductible contributions applies across all IRAs held by the individual, on a pro rata basis. What this means is that when you convert, the IRS does not allow you to selectively convert only non-deductible contribution.

For example, say you have \$100,000 in all of your traditional IRAs in 2010 and \$15,000 of the \$100,000 is made up of non-deductible contribution. You have paid taxes already on 15% of your IRA assets, then 85% of whatever amount you convert will be subject to ordinary income tax. This is known as the 'pro-rata rule' and is calculated on the 1040 form lines 15a and 15b.

The idea of funding the non-deductible Traditional IRA and converting may be a prudent decision for any investor who expects to be in a higher tax bracket in retirement than he or she is in today, or who simply wishes to minimize income taxes in retirement. It may also be a compelling strategy for investors who do not already have large sums in their Traditional IRAs.

IRA CONTRIBUTION LIMITS		
	2008	2009
Regular	\$5,000	\$5,000
Catch-Up*	\$1,000	\$1,000

* Only taxpayers age 50 and over are eligible

In addition, in 2010 individuals who convert will have a one time opportunity to spread payment of their conversion taxes over two years, 2011 and 2012, instead of all at once.

As always, if you have questions or concerns, please do not hesitate to contact us. Our Wealth Advisors work with you to help you create and grow wealth, protect and preserve wealth, pass wealth to others during your lifetime and distribute your financial assets wisely.

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