

Roth IRA Conversion: Is it right for your client?

High earners can convert to Roth IRA in 2010

Until 2010, only taxpayers with income below \$100,000 were allowed to convert their traditional individual retirement accounts (IRAs) into Roth IRAs—an option that permits tax-free withdrawals during retirement. Now Roth IRA conversion is available to all taxpayers, regardless of income level.

It's important to know that when you convert all or part of your traditional IRA to a Roth IRA, the amount you transfer counts as taxable income—and can push you into a higher tax bracket for the year. Further, if you are younger than age 59½, you will want to keep the transfer “pure” and penalty-free with all IRA assets remaining intact; any taxes due from this transfer should come from another source.

One way to offset the tax consequences of this transfer is to find additional tax deductions, such as a major charitable gift the same year.

The scenario below illustrates this advantage for a married couple filing a joint tax return:

	Roth IRA Conversion	Plus Charitable Gift
Regular Income	\$ 200,000	\$ 200,000
Roth IRA Conversion	100,000	100,000
Normal Deductions	(11,400)	(11,400)
Charitable Deduction		(100,000)
Exemptions	(7,300)	(7,300)
Taxable Income	\$ 281,300	181,300
Federal Taxes*	\$ 70,610	\$ 39,008

* Does not reflect personal exemption phase out and itemized deduction limitation.

“We’re always happy to work with charitable individuals and their advisors to take advantage of tax-smart giving opportunities,” said Eileen Connolly-Keesler, President and CEO of the Oshkosh Area Community Foundation. “If you use this opportunity to establish a charitable fund with the community foundation, you can start making a difference in an area of community life important to you right away, and stay involved in your gift over time if you wish.”

Current market conditions have reduced retirement account balances for many, making Roth IRA conversions an interesting option to evaluate. If you are wondering if a Roth IRA conversion and charitable gift is right for your client, contact the Oshkosh Area Community Foundation at (920) 426-3993 or www.OshkoshAreaCF.org.