

Roth IRAs

Why Should I Consider Converting My Traditional IRA into a Roth IRA?

New Rules Apply in 2010

Questions & Answers

Purpose of a Roth IRA Conversion Contribution

If you have a traditional IRA, federal income tax laws allow you to move all, or a portion, of your traditional IRA funds via "conversion" to a Roth IRA. This brochure discusses the benefits of converting traditional IRA funds to a Roth IRA, and the proper procedures for doing so.

Why convert my traditional IRA to a Roth IRA?

The income earned by the funds within a Roth IRA will be tax free to you or your beneficiaries when withdrawn as a qualified distribution. The income earned within your traditional IRA is always taxable when withdrawn.

Example: You have \$10,000 in your traditional IRA as of January 2007. You can certainly leave the funds within your traditional IRA and allow them to grow. Assume this \$10,000 grows in value to \$50,000 over the next 18 years.

The \$40,000 of income will be taxable whenever it is withdrawn from a traditional IRA. However, if you had converted or moved this \$10,000 to a Roth IRA, the \$40,000 of income will never be taxed if the funds are withdrawn as a qualified distribution.

No matter how great the income or how wealthy you are, it will be tax free if the distribution from the Roth IRA is a qualified distribution. As discussed below, you are required to pay income tax with respect to the \$10,000 for the year the conversion occurred.

Who is eligible to do a conversion for years 2007 - 2009?

If your Modified Adjusted Gross Income (MAGI) is less than \$100,000, and if you are married, you file a joint income tax return, you are eligible to do a conversion for years 2007-2009. However, a special rule provides that you are eligible for a conversion, even though you file a separate return, if you did not live with your spouse at any time during the year.