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Roth IRA Conversions A Potential Tax Savings Bonanza

An Update from Sax Macy Fromm & Co., PC

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A Roth IRA is very similar to a traditional IRA, except that it has some highly significant advantages. Unlike a traditional IRA, the owner is not required to take minimum distributions from a Roth IRA upon attaining age 70½. Further, if you plan properly your children may also withdraw funds from the Roth IRA, over their lifetimes. The amount of these withdrawals would not be taxable. These factors permit a tax free accumulation of funds within the Roth IRA for many years, which is a major advantage.

Starting on January 1, 2010 the income limitations with respect to conversions to a Roth IRA have been eliminated. Accordingly, all taxpayers will be able to convert a traditional IRA, a 401(K) Plan or a profit sharing plan to a Roth IRA without regard to income limitations.

Any taxable income recognized on the Roth IRA conversion in 2010, can, if you so elect, be spread over calendar years 2011 and 2012 with the tax being paid with those returns. Depending on your circumstances, you can decide whether you want to pay your tax immediately or defer it over a two year period.

In addition, planning techniques exist to allow for a look back, at your discretion, should market or other conditions warrant. Also, the ability to reverse all or a portion of the conversion is available to you.

There are many complex variables to consider before making the decision to convert to a Roth IRA. While there are some circumstances that readily indicate conversion or non-conversion, there is a massive gray area in between. Your own personal circumstances have to be considered in order to determine whether it is advisable to convert to a Roth IRA if you are within this gray area.

We would be pleased to assist you in making a decision as to the feasibility of converting to a Roth IRA.

For more information, please contact your SMF representative or Steven P. Kaplan, CPA, JD, LLM at skaplan@smf-cpa.com.



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