

# BUSINESS



**ABOUT  
YOUR MONEY**  
By Jim Becker

## New Year Means New Opportunities for Roth IRA Conversion

If you already have a Roth IRA, you're aware of its biggest benefit: Your earnings grow tax free, provided you meet certain conditions. If you don't have a Roth IRA, you may want to consider one — and it may be easier for you to do just that in 2010.

Before we get to the reasons why 2010 may be your year to open or convert to a Roth IRA, let's look at some differences between Roth and traditional IRAs. If you own a traditional IRA, your contributions may be tax-deductible, depending on your income level. But whether you can make deductible contributions or not, your earnings grow on a tax-deferred basis, which means your money can grow faster than it would if it were placed in an investment on which you paid taxes every year. On the other hand, Roth IRA contributions are never tax-deductible, but your earnings grow tax free, as long as you've held your account at least five years and you don't start taking withdrawals until you're at least age 59½.

Furthermore, unlike a traditional IRA, a Roth IRA does not require you to start taking distributions when you reach 70½. Consequently, you'll have more flexibility and freedom when it comes to making withdrawals.

If you have a traditional IRA, you might be thinking it's a good idea to convert to a Roth IRA because tax free sounds better than tax deferred — and, all things being equal, tax free would indeed be better. However, it's not

quite that simple. If you convert your traditional IRA to a Roth IRA, you'll have to pay taxes on those traditional IRA earnings and contributions that had previously gone untaxed. If you do convert, you'll be better off if you use money held outside your IRA to pay the taxes. If you simply take money from your IRA, you'll obviously lower the value of your IRA — and, if you're under 59½, you may have to pay an additional 10% penalty on the amount you withdraw to pay the taxes.

In the past, many investors have been prohibited from converting their IRAs due to either their tax filing status or their income. Under previous rules, you could convert your traditional IRA to a Roth IRA only if you were married and filed a joint return or were a single filer, and your modified adjusted gross income (MAGI) was \$100,000 or less. But starting in 2010, you can convert funds to a Roth IRA even if your MAGI is over \$100,000. You will also be able to convert to a Roth if you are married and file separate tax returns.

And that's not the only piece of good news regarding your conversion ability. As mentioned above, you will have to pay taxes when you convert to a Roth IRA. A conversion is usually reported as income for the tax year the conversion takes place. However, in 2010 only, your conversion amount will be split and reported as income for tax years 2011 and 2012 unless you elect to report the entire conversion amount on your 2010 taxes. You may

find that spreading the taxes over two years can make the conversion more affordable.

In any case, consult with your tax advisor before converting from a traditional IRA to a Roth. If done correctly, such a conversion can potentially make a big difference in your ultimate retirement lifestyle.

On March 11, from 5:30 to 7:30 PM, Jim Becker and John Thomas from the Edward Jones office in Plaza North Shopping Center will host a seminar on IRA conversions. The seminar will be held at the Petaluma Arts Center, 230 Lakeville Street. Refreshments will be served. For more information, call 707.778.7780.



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### Now Anyone can Convert to a Roth IRA How Does Tax-free Income Sound? New IRA Opportunities For 2010 You're Invited ...

A new tax law change makes this year a particularly good time to consider converting from a traditional, SEP or SIMPLE IRA to a Roth IRA.

Find out why at our free seminar Roth IRAs: Retirement Can Be Less Taxing. You'll learn about:

- Differences between traditional and Roth IRAs
- Features of the new tax law change
- Benefits of converting to a Roth IRA and important tax considerations

**Call today to reserve space for yourself and a guest at this free educational seminar.**

**Date:** Thursday, March 11, 2010

**Time:** 4:00 pm - 5:30 pm

**Location:** Petaluma Arts Center 230 Lakeville Street

**RSVP:** Paula or Dinelle 707-778-7780

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