

Beginning in 2010, Income Limitations on Roth IRA Conversions are Eliminated

Taxpayers with six-figure incomes who like to plan far ahead should be aware of a potentially lucrative provision contained in the recently enacted Tax Increase Prevention and Reconciliation Act. The new law provides that, beginning in 2010, the rules that currently prevent a taxpayer with more than \$100,000 in modified adjusted gross income from converting a regular individual retirement account (IRA) into a Roth IRA will be eliminated.

A taxpayer who makes deductible contributions to a regular individual retirement account (IRA) gets a tax break now for the dollars he puts in and his earnings grow tax free, but he pays ordinary income tax on every dollar he takes out, and withdrawals are subject to significant restrictions. In a Roth IRA, the taxpayer gets no tax deduction for contributions, but his money grows tax free and there's no tax, and few restrictions, on qualifying withdrawals.

Under pre-Tax Increase Prevention and Reconciliation Act law, only taxpayers with \$100,000 or less in modified adjusted gross income can convert a regular IRA into a Roth IRA. A taxpayer making the conversion generally must pay tax on money he takes out of his regular IRA, but once it's in his Roth IRA, he won't pay tax on that money or the money it earns. Generally speaking, Roth conversions appeal to taxpayers who either think their tax rate will go up in retirement, or believe that the value of their account will rise significantly, and thus are willing to make an upfront tax payment when they convert in order to reap large tax savings in later years.

Under the new law, beginning in 2010, taxpayers with more than \$100,000 of modified adjusted gross income also will be able to convert a regular IRA into a Roth IRA. To make such conversions more attractive in 2010, the new law permits taxpayers who convert in 2010 to spread the income and resulting tax payments on the converted funds over two years - 2011 and 2012.