

Planning & Investment News

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ROTH IRA CONVERSIONS

Much has been written this year about Roth IRA's as the rules have been relaxed for converting traditional, or regular, IRA's to Roth IRA's. The obvious question is "are conversions a good deal?"

Quickly, let me define the two IRA types. The traditional IRA, like a 401(k), is usually funded with money that has not been taxed. The government, who is always "going to get their part", taxes the money when it is withdrawn. A Roth IRA, on the other hand, is funded with after-tax funds – money that has already been taxed. Therefore when the funds are withdrawn, the proceeds are not subject to income tax.

A Roth IRA conversion entails transferring traditional IRA funds to a Roth. This is a taxable event, so taxes must be paid on the transferred amount. Except for 2010, conversions are only allowed if your income level is below a certain amount. There is no such maximum income limitation for 2010.

Roth IRA's have many advantages, especially at this time when many feel it is certain that income taxes are going to rise in the future. Paying taxes at today's assumed lower rates appears worthwhile rather than waiting for possible future tax increases.

However we have always liked the rule of thumb of "never pay taxes until you have to." Our analysis has led us to think that it is only in the rare situation that conversion makes sense. In order to make paying taxes now worthwhile, future tax rates would have to increase substantially. For more information on Roth IRA conversions, you can access a video by holding down the "CTRL" key on your keyboard and clicking on the following link:

[Roth IRA Conversions 2010](#)

Let us know if you would like us to analyze your particular unique situation.

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