

Roth IRAs Take On New Look in 2010

Beau Henderson

Financial Advisor/Private Wealth Counsel

The Tax Increase Prevention and Reconciliation Act (TIPRA) was signed into law on May 17, 2006 eliminating all eligibility restrictions on Roth conversion income and filing status eligibility. Here's TIPRA explained.

What Does TIPRA Propose?

The Tax Increase Prevention and Reconciliation act includes several Congressional revenue-raising provisions, one of which eliminates the eligibility rules for Roth IRA conversions. This means that for those conversions done in 2010, the taxes due can be spread over 2 years and include income from 2011 and 2012.

What Does It Mean?

There are a few basic rules that apply to this type of conversion:

- Access to Roth IRA funds remains unchanged. A qualified distribution (one that is not subject to income tax or penalties) is one that is made 5 years after a Roth account is established and the taxpayer is over 59 _.
- If you're without a Roth IRA, you should open one in 2007. You'll then be able to take a qualified distribution in 2012 if you're over 59 _ at the time of the 2010 conversion.
- Amounts from conversions made in 2010 that are withdrawn before 2012, when the full tax is paid on the conversion, will accelerate the income tax due.

The Bottom Line

To prepare for the Roth conversion tax in 2011 and 2012, maximize your contributions now so that they can be converted in 2010 to capitalize on the payment plan. And if you'll reach age 59 _ by 2010, begin funding your Roth IRA now (if eligible) to start the 5-year clock for tax free distributions.

Beau Henderson is a Financial Advisor and Private Wealth Counsel for the Centurion Advisory Group. He specializes in IRA distributions, real estate investments, self-directed IRAs, and 1031 Exchanges. He can be reached for consultation by calling 770.540.9142 or emailing bhenderson@centurionag.com.