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## Roth Conversion

If your traditional IRA has dropped in value and you expect to pay higher federal income tax rates in future years, now might be a very good time to consider converting all or part of your traditional IRA balance into a Roth IRA. Here is why. If you convert, it will trigger a current tax hit on the amount you convert. But, with your traditional IRA balance at a depressed level (and possibly your overall income too), the tax hit will be less. After the conversion, your new Roth IRA balance can build up federal-income-tax-free. Eventually you can take tax-free withdrawals after age 59.5 when your marginal tax rate may be higher (perhaps much higher) than it is right now.

**The Basics:**

A Roth conversion is treated as a taxable distribution from your traditional IRA because you are deemed to receive a taxable payout from your traditional IRA with the money then going into the new Roth account. So, a conversion will generally trigger a current federal income tax bill (and maybe a state income tax bill too). But the following positive factors may outweigh the current tax hit.

- The conversion tax hit is reduced if the value of your traditional IRA has been beaten down by stock market losses.
- Today's tax rates might be the lowest you will see for the rest of your life. If so, converting would allow you to completely avoid higher future federal income tax rates on the entire post-conversion increase in the value of your Roth account.

The Roth conversion privilege is not available to everyone this year. For 2009, it is only available if your modified adjusted gross income (not including any additional income triggered by the conversion itself) will be \$100,000 or less.

For 2010, the \$100,000 restriction is scheduled to completely disappear, which will allow all individuals to take advantage of the Roth conversion strategy no matter how high their income. If your income level prevents a 2009 Roth conversion, you can do one in 2010.

**Reversing a Conversion:**

Another great thing about the Roth conversion strategy is that you can always change your mind well after the fact. You have until October 15 of

the year following the conversion year to reverse your converted account (or accounts). For example, if you convert a traditional IRA into a Roth account in early 2010 and later next year the value of the converted account plummets due to poor performance of the investments in the account, you have until October 15, 2011 to reverse the account back to a traditional IRA. You won't owe any 2010 income tax on the now-unwound conversion.

**Contact Us Today:**

Low current tax cost for converting plus the chance to avoid higher future tax rates on income and gains that will accumulate in your Roth account as the economy recovers may prove to be extremely beneficial. There are a number of variables to consider, if you have questions or would like to get started please [contact us](#).

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