

## Roth IRA Conversions in 2010: Goodbye, Income Limits!

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

### What are the current rules?

For 2009, if your modified adjusted gross income (MAGI) is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you file your taxes as married filing separately, you can't make a conversion at all--regardless of your income level.

In addition, your ability to make annual contributions to a Roth IRA depends on your MAGI:

If your federal filing status is:	Your Roth IRA contribution is reduced for 2009 if your MAGI is:	You can't contribute to a Roth IRA in 2009 if your MAGI is:
Single or head of household	\$105,000 but less than \$120,000	\$120,000 or more
Married filing jointly or qualifying widow(er)	\$166,000 but less than \$176,000	\$176,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

### What is--and isn't--changing

In 2006, the Tax Increase Prevention and Reconciliation Act (TIPRA) became law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in 2010.

### Convert now, pay later

Normally, when you convert a traditional IRA to a Roth IRA, you're required to include the amount converted--minus any nondeductible contributions you've made--in your gross income in the year you make the conversion.

However, to ease the pain of a potentially large tax hit in 2010, TIPRA includes a special rule for 2010 conversions only: if you convert your traditional IRA to a Roth IRA in 2010, you can report half the income from the conversion in 2011, and the other half in 2012.

For example, assume that in 2010 your sole traditional IRA is worth \$200,000, and you've made \$50,000 of nondeductible contributions. If you convert the entire IRA to a Roth in 2010, \$150,000 will be subject to federal income taxes. If you use the special rule, you can report half of the taxable amount (\$75,000) as income in 2011, and the other half as

income in 2012. Alternatively, you can report the entire \$150,000 as income in 2010. (Note: state tax rules may differ.)

(Note that a SEP IRA can also be converted to a Roth IRA, and a SIMPLE IRA can be converted two years after you begin participating in your employer's SIMPLE IRA plan.)

### **Is a Roth conversion right for you?**

The answer is complicated, and depends on many factors, including your income tax rate, the length of

time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion.

Even if you decide to convert, whether it makes sense to use the special 2010 deferral rule depends on your individual situation. It may also depend on where you think income tax rates are headed. If you expect rates to be lower in 2010 than in 2011 and/or 2012, deferring the tax hit may not be a good idea. Your financial professional can help you run projections to determine if the special rule is appropriate in your particular case.

### **Ask the Experts: Can I change investments in my 529 plan account?**

The short answer is yes. During the stock market declines of 2008-2009, many 529 plan participants made investment changes in their accounts. But the rules for doing so depend on whether the change is for *future* contributions or *existing* contributions.

*Future contributions.* Typically, most 529 plans allow you to change your investment allocations for your future contributions at any time. Some plans let you do this online in a matter of minutes, while other plans require you to mail in a form with your new investment preferences. (Note that this seemingly inconsequential difference may be an important one if you want to act quickly.)

*Existing contributions.* The rules are more restrictive when it comes to changing investment allocations for your existing contributions. Generally, under federal law, 529 plans are permitted (but not required) to allow you to change the investment allocations for your existing contributions once per calendar year. But for 2009 only, 529 plans may allow you to do so twice per year. (No word yet on whether the IRS will extend this "twice-per-year" rule to 2010 and beyond, though the 529 industry is sure to lobby for it.)

If you've already made two investment changes this year but want to make another, there is a workaround: most 529 plans allow you to change your investment allocations for your existing contributions whenever you change the beneficiary of the account.

But if you don't want to change the beneficiary of your account and you're still unhappy with your investment allocations, you have one more option: you can jump ship to a different 529 plan. Under federal law, you can roll over your existing 529 plan account to a new 529 plan (college savings plan or prepaid tuition plan) once every 12 months without any federal tax penalty and without having to change the beneficiary.