

## Roth Conversion Basics

If you have several traditional IRAs, you can convert some accounts and leave others alone. Similarly, you can convert only a proportion of the balances in one or more IRAs.

If you have made some nondeductible traditional IRA contributions over the years, and then convert some of your traditional IRA balances to Roth status, the deemed distribution that takes place when you convert will be partly taxable and partly tax-free. Your tax adviser can handle the calculations.

The extra taxable income triggered by a conversion is added to your salary, self-employment earnings, investment income, and so forth. So if you convert a large-balance IRA, it could bump you into a higher tax bracket and make you ineligible for some tax breaks, such as the child and education tax credits and passive loss deductions from investment real estate.

To avoid this, consider converting a large traditional IRA balance (or balances) in stages over at least two years. For instance, if your 2009 MAGI will not exceed \$100,000, you could convert half of your traditional IRA balances this year and the other half next year (regardless of your 2010 income). Or if your 2009 income is too high; you could spread Roth conversions over 2010 and 2011 when the MAGI restriction will be gone.

This multi-year approach can prevent the extra conversion income from pushing you into higher tax brackets and negating AGI-sensitive tax breaks. If a multi-year strategy sounds good, start this year (is possible) because the 2009 federal income tax rates are probably as good as they are going to get. That will probably still be true next year. But after 2010, all bets are off. Rates for higher-income individuals may go up, which could make the multi-year conversion strategy inadvisable. (Hopefully, you will know your 2011 tax situation by the end of next year and will have time to plan your Roth conversion moves accordingly.)

**Important:** Although the income restriction for converting is being lifted next year, the income limits for annual Roth IRA contributions will still be in place. For example, you can make contribution for 2009 of up to \$5,000 (\$6,000 if you are age 50 on December 31, 2009). But once your MAGI exceeds \$166,000 for married couples filing jointly (\$105,000 for singles), the amount you can contribute goes down or “phases out.” You are no longer eligible to contribute to a 2009 Roth if your MAGI exceeds \$176,000 for married couples (\$120,000 for singles). So in 2010, you might be able to *convert* a traditional IRA to a Roth if your income is \$200,000 or more, but you will not be able to make an annual *contribution* to one. (The income restriction on 2010 contributions has not yet been announced but they will be close to the 2009 figures.)