
The Window of Opportunity is Open

Ever since Roth IRAs were created, high income taxpayers have been shut out of the game. Individuals with an adjusted gross income (AGI) of more than \$110,000 and married couples with an AGI of more than \$160,000 cannot contribute to a Roth. Although that has not changed, recent legislation allows just about anyone to convert a standard IRA to a Roth IRA in 2010.

In a recent Marshall Loeb MarketWatch column, AKM Partner **Warren Bergstein** advised that the conversion strategy is a good option for those who think they'll be in a high tax bracket after they retire but are shut out of Roth right now.

A provision in the "The Tax Increase Prevention and Reconciliation Act" (TIPRA) passed lifts the income cap on conversions, effective in 2010. So, although you may not be able to contribute directly to a Roth IRA, with a little advance planning you can still reap all the tax benefits.

IRA OVERVIEW

Traditional IRAs are based on the premise that most taxpayers will earn less after retirement than while they are still working, and hence will be in a lower tax bracket. Pre-tax dollars (up to the legally-specified maximum of \$4,000 this year) are put into the account and the taxpayer owes income tax only once the money is withdrawn. Withdrawal before retirement results in significant penalties (and undercuts any tax advantages).

Individuals and couples at higher income levels may not experience much reduction in

their incomes after retirement, so they reap no tax benefits from using traditional IRAs as part of their overall financial strategies. Additionally, there is a tremendous loss of flexibility – and virtually no access to capital – with these accounts.

ROTH RULES

Roth IRAs are built around a very different premise: flexibility. Post-tax dollars (again, up to a legally-defined maximum depending on AGI) are deposited into the account. Because you have already paid income tax on these funds, you will enjoy a certain amount of leeway in using the funds before you retire. For example, in many instances, it is legal to use money contributed to a Roth IRA to purchase a primary residence or pay for college tuition, and you will not incur a penalty for doing so.

For high income taxpayers, Roth IRAs present another advantage: tax savings after retirement. Income taxes have already been paid on Roth IRAs, so no further tax is due when you use the funds after retirement. Depending on the way your finances are structured – and what your income level is – this can be highly advantageous.



