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## The Window of Opportunity is Open

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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.

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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maximum of \$4,000 this year) are put into the account and the taxpayer owes income tax only once the money is withdrawn.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.



## THE BOTTOM LINE

If your AGI is over the threshold (\$110,000 for individuals, \$160,000 for couples), explore whether a Roth IRA will benefit you in the long run. If it will, plan to make the maximum allowable contributions to a regular IRA for tax years 2006, 2007, 2008 and 2009 and then roll these into a Roth IRA in 2010.

AKM Partner and Certified Financial Planner™ **Lawrence Katz** observes that there's a hidden benefit, too: once you've been allowed to create your Roth IRA, you are more than likely to be able to continue contributing to it, maximizing your benefit over time.

## START TODAY

While 2010 may seem like a long way off, it is actually close when it comes to planning effective long-haul tax strategies. We urge you to review your options now.

What you have to lose in doing this is a little time – to consult with us, execute the paperwork and maintain the required records. What you could gain is far greater control over your own money and an increased chance of keeping more of it.

Contact us today for a free consultation on your retirement and tax planning needs.



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