Who should convert to Roth IRA in 2009 or 2010?
By, John Azodi, CPA Copyright ©

There will be a rush for some people to convert their IRA's into Roth IRA's in 2010, because the IRS is allowing those with Income (AGI) of over $100,000 to convert in 2010 since they have not been able do that so far. The big question: is should you convert or not? In order to get to the right answer, you need to know whether it makes sense for you to continue with a tax deferred IRA or convert in 2010 and pay the income taxes then, therefore allowing the earnings to grow tax-free from then on. I believe that there will be those who should not convert but will. However, some who should convert will not. Why? In my book Roth IRA: Exploding the Myths, I cover some myths, which keep people from contributing or converting into Roth IRA. This is a partial listing of some:

- If you are 60+ years old, you are too old to start a Roth IRA or convert to a Roth IRA
- Roth IRA is not good because you have to pay tax on it
- You think that a Roth IRA is an investment
- You have less money to invest in a Roth IRA
- A Roth IRA will tie up your money
- You think stretch IRA is an investment
- You think you already have too much in your retirement plan
- You're saying, "I am not paying taxes now, why should I convert and pay the taxes now?"

Once an IRA is converted, it acts like a regular Roth IRA. If you consider doing a Roth IRA conversion, the conversion must be complete before December 31. The tax is due in the year the conversion is completed. To qualify for the conversion, your adjusted gross income (AGI), without counting the Roth IRA conversion and Required Minimum Distribution (RMD) for those over 70 ½ years old from a regular IRA is less than $100,000. Your AGI is the total of all income less certain adjustments. It is shown on the last line (37) of page one of your Form 1040 tax return. Alternatively, it is on line 21 of page one of Form 1040A. However, the IRS is allowing everyone to convert his or her IRA into a Roth IRA in the year 2010 without the AGI limit. The best part is that you have 2 years to pay the tax on this conversion.

You may ask, "Why should I convert my IRA into a Roth IRA and pay tax on it now? Isn't the biggest reason for investing in an IRA in the first place so that I can defer the tax for as long as possible?" It is true that for many this is not the right thing to do, but there are conditions that may justify converting. I will explain some of them.

You should convert your IRA into a Roth IRA under the following conditions:
Example 1: You have created negative taxable income:

- You have lost your job and have been living off your savings. Therefore, you have very little income for that year.
- You realize that your itemized deductions were more than your income.
- You have major medical expense

Example 2: Some rental real estate owners should convert because of the size of loss they create for depreciating the building and improvements.

Example 3: You are in a 10% or 15% federal tax bracket currently (you have to count the state income tax percentage too if you live in a state that has income taxes) and you know that by the time you take money out of your IRA you will be in a higher tax bracket, such as 25% or higher.

Example 4: Some retired seniors between the ages of 59½ and 70½ should convert because they have very little taxable income. Even though they have large IRA or other types of tax deferred retirement plans such as 401(K) Plan, 403(b) plans, etc.

There are other times when it makes sense for seniors or others to convert to a Roth IRA, even if they have to pay tax on it (as discussed in more details in the book). Here is an example.

Example 5: You have a large IRA and want to leave it for your children or grand children. You know they will pay tax on it and their tax rate is higher than yours. Then it makes sense to convert. You may accomplish three things with this conversion: 1) you do not have to take a RMD from your IRA after you turn 70½. 2) Your children can stretch a Roth IRA and receive a lifetime of tax-free earnings versus a lifetime of income that is taxable, if they use the IRS RMD table and did not take more money than the RMD tables allow. 3) Depending on the size of your estate, you could save estate tax (discuss this with your CPA, estate attorney, or financial advisor with expertise in estate planning, as this would require expert advice).

What happens if you convert your IRA into a Roth IRA and when you are preparing your income taxes you realize it is costing you too much in tax or you went over the $100,000 adjusted gross income limit(in 2009)? The IRS allows you to reverse the conversion without any tax consequences once per calendar year before the due date of your tax return, plus the maximum six-month extension period (whether or not the return is actually extended). This is called a Roth IRA recharacterization. For example, the deadline to recharacterize a 2009 Roth conversion is October 15, 2010.

Even though many people are looking at 2010 to convert, for those whose income is under $100,000 and have determined that a Roth IRA is better for them should, convert in 2009 if the value of their account is down because of stock market losses of 2008/2009. So convert an IRA account that has lost money now, and pay the tax on the lower value. Then, if and when your account recovers, the earnings are tax-free. Of course there is still the risk that your account could lose even as a Roth IRA, but you are given one opportunity to change it back to a regular IRA by the tax filing time.

I know there are many opinions on both sides of the suggestions: whether or not to convert some of your IRA into Roth IRA. After listening to many of my clients and others I realized that there are a lot of misunderstandings about Roth IRA's. For that reason I have written a book about Roth IRA myths (Called "Roth IRA: Exploding the Myths", and "To Convert or Not in 2009/2010"). I explain in plain English what Roth IRA is the advantages and disadvantages and who should have a Roth IRA or convert into the Roth IRA. Visit WWW.WhyRothIRA.Com to get more information. Writing this book has been a family project, as my 19 years old daughter Christina did the illustrations and formatting and my 23 year daughter Jahana helped with the editing and the tone of the book.