Time for a Roth Conversion?

When the investment markets are rocky, bright spots may be hard to find. But here's one: If you've been thinking of converting a traditional IRA to a Roth IRA, making your move when the value of your IRA has dropped means your "tax cost" will be lower.

Traditional Tax Treatment

With a traditional IRA, contributions may be deductible, and investment earnings accumulate tax deferred. Income taxes are not due until you withdraw money from your traditional IRA.* Once you reach age 70½, you must begin taking annual minimum distributions from your account.

If You Convert

You may convert a traditional IRA to a Roth IRA regardless of income level or tax-filing status. The previously untaxed amounts in your traditional IRA will be immediately taxable in the year of the conversion. The taxable conversion amount is calculated as of the day of conversion.

Why Convert?

So why convert? To take advantage of the biggest Roth benefit — tax-free investment earnings. Once you've held a Roth IRA for five years and you're over the age of 59½ (and in certain other circumstances), you won't have to pay income taxes on withdrawals of investment earnings. And you don't *have* to withdraw money from a Roth IRA unless you want to, since there are no mandatory minimum distribution requirements during the account owner's lifetime. Roth IRA assets that pass to your beneficiaries won't be subject to income taxes.

An Unintended Consequence

Should the value of your account drop *after* your conversion, you could end up paying tax on money you no longer have. If this happens, you can *undo* the Roth conversion by *recharacterizing* the transaction and transferring your money back to a traditional IRA. You'd no longer owe tax on the conversion, assuming the recharacterization met applicable tax law requirements.

We can help you determine whether a Roth IRA conversion would be a beneficial move.

* Withdrawal amounts attributable to nondeductible contributions are not taxed.