

Dear Client/Friend

Recognizing income earlier than is otherwise necessary is unusual for a CPA to recommend. However, converting a traditional IRA to a Roth IRA may be a good idea if you are not fully utilizing the lower tax brackets (10% and 15%), and you expect to be taxed at a higher rate in retirement. When completing a conversion from a traditional IRA to a Roth IRA, you must pay income taxes on the amount converted in the current year. The conversion works best if you can pay the income tax liability with other available funds. If you use funds from within the IRA account to pay the taxes, you could be subject to an additional 10 percent federal tax penalty (applicable to those under age 59½).

The tax-free status of Roth IRA distributions can be especially helpful after you retire, as having funds in a Roth IRA can allow you to manage your taxable income. This may allow you to maximize the advantage of the lower tax brackets and it can also be beneficial in limiting the part of your social security benefits that are subject to tax. To qualify as a tax-free withdrawal, the Roth IRA must be in place for at least five years.

Unlike traditional IRAs, Roth IRAs are not subject to mandatory withdrawals at age 70½, so the assets can continue to grow tax-exempt. However, the required minimum distribution rules do apply for beneficiaries of a Roth IRA account.

If you have already converted to a Roth IRA, and the value of the IRA has decreased significantly since the conversion, you can recharacterize it back into a traditional IRA and then reconvert into a Roth at the lower value. This will save on the amount of income taxes that will have to be paid. For example, if the traditional IRA was worth \$100,000 in January when it was converted to a Roth and it is now worth \$80,000, the taxes on the \$20,000 loss in value can be saved by recharacterizing and then reconverting the IRA.

Planning for retirement is a challenging task that needs to be constantly monitored as the tax laws and your personal goals evolve and change. Please give us a call if you have any questions or would like to discuss the possibility of converting or recharacterizing your traditional IRA. As always we want to help you minimize your overall tax liability.

Sincerely,

David P. Dirksen

