OBER | KALER
Attorneys at Law

Planning for the Future™

Subscribe
Reprints
Estates & Trusts Group
www.ober.com

WINTER 2010

A New Year Brings Changes to Roth IRA Rules

A new year will usher in changes to Roth IRA "conversion" rules, which will result in long-term tax-free growth for those who take advantage of the new rules. A Roth IRA differs from a standard IRA in several ways. Distributions received from a standard IRA are taxable at a taxpayer's marginal income tax rate, whereas Roth IRA distributions are not taxable. Also, taxpayers are required to take "minimum distributions" (and pay tax) from a standard IRA when they reach age 70 ½. There are no distributions required from a Roth IRA during the lifetime of the individual who created the account.

A standard IRA can be "converted" into a Roth IRA. Upon conversion, the account owner pays tax on the value of the account, but when distributions are later taken from the account, no tax is paid because the IRA is now a Roth. Prior to 2010, a conversion was not allowed if a taxpayer's gross income exceeded $100,000. Beginning January 1, 2010, all individuals, including those with income exceeding $100,000, will be permitted to convert standard IRAs to Roth IRAs. Also, an eligible employee plan can be rolled over into a standard IRA which can then be converted to a Roth IRA. Although the taxpayer is required to pay tax on the amounts that are converted, if the conversion occurs in 2010 the income is deferred to his 2011 and 2012 tax returns, unless he elects to report all of the income on his 2010 tax return.

The Roth IRA can be a very powerful estate planning tool as well as a retirement vehicle because it can be passed on to heirs who continue to benefit from the tax-free growth of the IRA assets. If the beneficiary is young, the benefits can be even more substantial. Whether a Roth conversion makes sense for you depends on your specific tax and estate planning situation, which should be carefully analyzed.

Copyright© 2010, Ober, Kaler, Grimes & Shriver

In this Issue

Estate Tax: To Be Or Not To Be In 2010?

A New Year Brings Changes to Roth IRA Rules

Estates & Trusts Group

Mary Baker Edwards, Co-chair
Matthew A. Mace, Co-chair
Betty Bannat
Lawrence D. Hollman
John P. Edgar
Donald R. Mering
John N. Rodock
Alexis B. Rohde
Victoria Z. Sulerzyski
S. Scott Tate
Thomas D. Washburne