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2010 Exemption on ROTH conversion cap

In general, money in a traditional IRA, SEP-IRA, SIMPLE-IRA, or qualified retirement plan, can be converted to a ROTH IRA, if in the year of conversion, modified AGI is $100,000 or less, and filing status is not Married Filing Separately.

Beginning January 1, 2010 the $100,000 modified AGI limitation no longer applies. Taxpayers of any income level qualify for a ROTH conversion. Taxpayers fling Married Filing Separately will also qualify for a ROTH conversion.

For ROTH IRA conversions in 2010, any amount required to be included in gross income due to the conversion can be included ratably over tax years 2011 and 2012, unless the taxpayer elects to pay the tax on the conversion in 2010. The amount of tax reported over this 2 – year period will be accelerated if there is a distribution on any converted amount prior to 2012.

Why is this significant? Because in the past the conversion from a traditional IRA, SEP-IRA, SIMPLE-IRA, or qualified retirement plan was severely restricted because of the $100,000 cap and the requirement that the tax on amount to be included in gross income due to the conversion had to be paid in the year of conversion.

Lifting the cap and spreading the tax over 2011 and 2012 make the ROTH conversion much more enhancing to those who would have liked to have made the conversion but was restricted by the conversion limitations.

To review, earnings and contributions on a ROTH IRA are distributed tax free to the taxpayer, ROTH has no Required Minimum Distribution requirements, and taxpayers can contribute to a ROTH after age 70 ½.

Considering the paper losses of the last year to many IRA and qualified retirement plans, this may be a perfect time to convert to a ROTH IRA for many taxpayers.

Till Next Time,

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