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ACCOUNTANTS & ADVISORS

TAX ALERT NEWSLETTER
December 2009

Audit & Assurance | Tax Compliance | Small Business Services | Management Consulting | Technology Solutions

Preparing for the 2010 IRA to Roth IRA Conversion Opportunity

As the end of 2009 approaches, a significant opportunity awaits many individuals. Beginning in 2010, taxpayers will be able to convert their traditional IRA (and funds that have been rolled over from a qualified plan) to a Roth IRA, regardless of their income level or filing status. In 2010 (and 2010 only), individuals will have the choice of recognizing their conversion income in 2010 or averaging it over 2011 and 2012 at the rates in effect for 2011 and 2012. This new conversion option presents both tax planning opportunities and challenges for 2009, 2010 and 2011.

Although a conversion to a Roth IRA does trigger immediate income taxed as ordinary income, a conversion does not trigger a 10 percent early withdrawal penalty.

Roth IRAs have several major advantages over traditional IRAs:

- Roth IRA distributions are tax-free if they are made after a five-year holding period has passed and after the account holder reaches age 59 1/2, or on account of death, disability, or the qualified purchase of a first home.

- Roth IRAs are not subject to the required minimum distribution (RMD) rules. Therefore, a Roth IRA account holder who reaches age 70 1/2 does not need to begin taking distributions; instead, the funds can continue to grow tax free until they are needed or are passed on to heirs.

- Roth IRA distributions do not affect the calculation of tax owed on Social Security payments and do not affect AGI-based deductions.

An IRA to Roth IRA conversion should be considered by individuals who:

- Can afford the tax on the converted amounts;
- Anticipate being in a higher tax bracket in the future than they are currently in;
- Have a significant amount of time before reaching retirement to allow assets to grow tax-free and recoup dollars that may have been lost due to the tax on conversion;
- Want to increase their tax-free retirement income;
- Are postponing retirement;
- Do not want to be subjected to the required minimum distribution (RMD) rules.

Tax Organizers

Organizers, engagement letters and IRS Forms 2848, Power of Attorney, will be mailed to our individual tax clients by mid-January.

Please remember to return these documents to our office with your other tax documents.

Important Tax Due Dates

January 31, 2010
Deadline for issuance of 1099s and W-2s

February 15, 2010
Corporate tax return documents are due to us

March 9, 2010
Individual organizer and tax return documents are due to us

March 15, 2010
Corporate calendar year tax returns due

April 15, 2010
▪Individual federal tax returns due

▪IRAs contribution deadline for 2009 contributions

▪Partnership calendar year tax returns due

This newsletter contains information of a general nature for our clients regarding auditing, tax, small business, technology, and other matters and should not be acted upon without further consultation. For additional information or to schedule an appointment to see how items apply to you, please contact our offices at 863.688.8841.

If you are planning on taking advantage of the Roth IRA conversion opportunity next year, you may want to consider some of the following strategies for this year:

- Make deductible IRA contributions this year.
- Make nondeductible IRA contributions this year.
- Create multiple IRAs with unique investment objectives from a single traditional IRA.
- If AGI is below the $100,000 limitation, convert traditional IRAs to Roth IRAs this year. In 2010 you may "recharacterize" your 2009 Roth IRA conversion if your planned objective is not realized.
- High-income individuals should avoid accelerating deductions and deferring income for 2009.

The rules for an IRA to Roth IRA conversion are very complex. A significant number of tax and financial considerations come into play when determining whether to convert your traditional IRA, employer-sponsored 401(k), 403(b), profit-sharing plan or Roth 401(k) to a Roth IRA. Please contact our office to determine if an IRA to Roth IRA conversion is right for you.

Note: Roth 401(k) plans were authorized by the Economic Growth and Tax Relief Act of 2001, but their effective date was delayed until tax years beginning after December 31, 2005. Roth 401(k) plans allow for both employee pre-tax and after-tax contributions. Upon conversion, the earnings of a Roth 401(k) plan and the pre-tax contributions result in taxable income.

Gifting Reminder

You may not be aware just how useful the annual gift tax exclusion can be as a tax planning tool and tax saving strategy. It is one of the easiest and most effective ways to transfer property without incurring a transfer tax.

What is the gift tax? The gift tax is paid by the donor of property transferred by gift. However, there are certain exclusions which might apply:

Estate Planning Reminder

Annual gifts are due by **December 31, 2009**

Gifts are **limited to $13,000** per donor to each recipient.

Exclusions:

- The first $13,000 of gifts made by a donor to each donee during the tax year;
- Tuition or medical expenses you pay directly to the institution on behalf of a donee;
- Gifts to your spouse;
- Gifts to political organizations;
- Gifts to qualified charities.

Spouses splitting gifts. If spouses consent to split all gifts that are made by either one of them during any year and each spouse is also a U.S. citizen or resident, then the gifts can be deemed as having been made one half by each spouse. Therefore, spouses who consent to split their gifts can transfer twice the annual per donee exclusion amount each year, free of gift tax ($26,000 for 2009).

Remember that the annual exclusion is lost for 2009 if it is not used by the end of the year, so make your gifts by December 31, 2009, to benefit from this tax saving strategy.

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