

WEALTH MANAGEMENT  
ROUNDTABLE  
&  
RALPH MINTO, JR. &  
ASSOCIATES

PRESENTS:  
ROTH IRA CONVERSIONS –  
ANSWERS TO DIFFICULT  
QUESTIONS

# SUMMARY

THIS COURSE ASSUMES YOU ARE AWARE OF THE BASIC ROTH IRA STRUCTURES AND ROLLOVER TECHNIQUES.

SHORT REVIEW:

WHAT IS A ROTH IRA?

A ROTH IRA IS A RETIREMENT ACCOUNT WHERE INDIVIDUALS CAN PUT UP TO \$4000 (NONDEDUCTIBLE) PER YEAR OF EARNED INCOME INTO THE PLAN WITH A \$500 ADDITION PERMITTED FOR THOSE OVER 50 YEARS OF AGE. WHILE IN THE PLAN ASSET GROWTH, DIVIDENDS AND INTEREST ARE NOT TAXABLE, AND MONIES WITHDRAWN FROM THE PLAN ARE TAX FREE UNDER CERTAIN INSTANCES.

# SUMMARY

- WHAT IS A ROTH CONVERSION IRA?  
A ROTH CONVERSION IRA IS A RETIREMENT ACCOUNT ESTABLISHED WHEN SOMEONE CONVERTS FROM A REGULAR IRA. A ROTH CONVERSION IRA WAS FIRST MADE AVAILABLE IN JANUARY, 1998.

# SUMMARY

- CAN ANYONE CONVERT AN IRA TO A ROTH CONVERSION IRA?

NO! CONVERSION FROM A REGULAR IRA TO A ROTH IRA IS NOT ALLOWED WHEN MODIFIED ADJUSTED ANNUAL GROSS INCOME EXCEEDS \$100,000 FOR MARRIED COUPLES FILING JOINTLY AND SINGLE TAXPAYERS IN THE YEAR IN WHICH THE CONVERSION TAKES PLACE.

# SUMMARY

- CAN I REVERSE MY CONVERSION FROM A ROTH CONVERSION IRA BACK TO A REGULAR IRA?

YES. YOU ALWAYS HAVE UNTIL OCTOBER 15 OF THE YEAR FOLLOWING THE CONVERSION TO UNDO THAT CONVERSION. OCTOBER 15 IS THE EXTENDED DUE DATE OF INDIVIDUAL FEDERAL INCOME TAX RETURNS. ON THE CONTRARY YOU MUST COMPLETE THE CONVERSION BY DECEMBER 31 FOR IT TO BE EFFECTIVE. THERE IS NO DELAYING THIS DATE.

TO BE ELIGIBLE FOR THE DECEMBER 31 DEADLINE YOU MUST JUST HAVE THE FUNDS DISTRIBUTED FROM THE TRADITIONAL IRA. YOU CAN COMPLETE THE TRANSFER TO THE NEW ROTH IRA AFTER THE YEAR END AND STILL HAVE IT QUALIFY AS A CONVERSION.

# SUMMARY

- HOW DO I CONVERT?
  1. YOU CAN TAKE A DISTRIBUTION FROM YOUR TRADITIONAL IRA, AND WITHIN 60 DAYS, TRANSFER THE FUNDS TO A ROTH IRA
  2. YOU CAN DO A TRUSTEE TO TRUSTEE TRANSFER
  3. YOU CAN HAVE YOUR TRUSTEE OF YOUR TRADITIONAL IRA TRANSFER THE FUNDS TO THE ROTH IRA MAINTAINED BY THE SAME TRUSTEE. BE SURE THE NEW IRA IS DENOMINATED AS A ROTH IRA.

# SUMMARY

- DISTRIBUTIONS FROM ROTH IRAS ARE SUBJECT TO DISTINCT DISTRIBUTION RULES. THE APPLICATION OF THESE RULES DEPENDS ENTIRELY ON THE TYPE OF CONTRIBUTION OR EARNINGS.

# SUMMARY

- TYPES
  1. ANNUAL (NON-ROLLOVER) CONTRIBUTIONS.
  2. TAXABLE PORTIONS OF FIRST ROLLOVER (CONVERSION).
  3. NONTAXABLE PORTION OF FIRST ROLLOVER.
  4. EACH SUBSEQUENT ROLLOVER, IN ORDER, WITH THE TAXABLE PORTION COMING OUT FIRST FOR EACH ROLLOVER.
  5. EARNINGS (ANY INCREASE IN VALUE OCCURRING INSIDE THE ROTH IRA)

# SUMMARY

- TREATMENT OF DISTRIBUTIONS

1. ANNUAL – CAN BE WITHDRAWN AT ANY TIME WITH NO TAX AND NO PENALTY.

2. TAXABLE PORTION OF ROLLOVER – APPLIES ONLY WHEN THE LIFETIME TOTAL OF WITHDRAWALS FROM ALL ROTH IRAS EXCEEDS THE LIFETIME TOTAL OF ANNUAL (NON-ROLLOVER) CONTRIBUTIONS TO ROTH IRAS PLUS THE LIFETIME TOTAL OF EARLIER ROLLOVERS.

- IF WITHDRAWN BEFORE THE FIRST DAY OF THE FIFTH YEAR AFTER THE YEAR OF THE ROLLOVER NO TAX BUT WILL BE SUBJECT TO THE 10% EARLY WITHDRAWAL PENALTY IF UNDER AGE 59 ½ AND NO EXCEPTIONS APPLY.

- BEGINNING ON THE FIRST DAY OF THE FIFTH YEAR AFTER THE YEAR OF THE ROLLOVER CAN BE WITHDRAWN AT ANYTIME WITH NO TAX AND NO PENALTY.

3. NONTAXABLE PORTION OF ANY ROLLOVER – APPLIES ONLY AFTER THE TAXABLE PORTION OF THE ROLLOVER HAS BEEN WITHDRAWN – CAN BE WITHDRAWN ANYTIME WITHOUT ANY PENALTY OR TAX.

4. EARNINGS – APPLIES ONLY AFTER ALL AMOUNTS OTHER THAN EARNINGS HAVE BEEN WITHDRAWN

- IF WITHDRAWN BEFORE THE FIRST DAY OF THE FIFTH YEAR AFTER THE YEAR YOU FIRST ESTABLISHED A ROTH IRA, TAXABLE AS ORDINARY INCOME AND ALSO SUBJECT TO THE 10% EARLY WITHDRAWAL PENALTY IF YOU ARE UNDER AGE 59 ½ AND NO EXCEPTION APPLIES.

- BEGINNING ON THE FIRST DAY OF THE FIFTH YEAR AFTER THE YEAR YOU FIRST ESTABLISHED A ROTH IRA, CAN BE WITHDRAWN WITH NO TAX AND NO PENALTY IF YOU ARE OVER AGE 59 ½ OR OTHERWISE MEET THE QUALIFICATIONS FOR A QUALIFIED DISTRIBUTION (DEATH, DISABILITY, FIRST TIME HOME BUYER). OTHERWISE WITHDRAWAL OF EARNINGS CONTINUE TO BE TAXABLE AS ORDINARY INCOME AND UNLESS AN EXCEPTION APPLIES, SUBJECT TO THE 10% EARLY WITHDRAWAL PENALTY.

# EXAMPLE

## JOE TAXPAYER

- AGE - 62
- LIFE EXPECTANCY – 22 YEARS
- SINGLE
- INCOME
- WAGES - \$8,000
- DIVIDENDS AND INTEREST – \$16,000, EARNING 6.333% ON \$270,000
- REGULAR IRA WITH BALANCE OF \$800,000 EARNING 8%
- RECEIVES \$18,000 IN SOCIAL SECURITY
- WANTS TO LIVE ON \$82,000 PER YEAR (AFTER TAX)
- ASSUMED INFLATION OF 3% WILL BE NEEDED IN GROWTH OF WITHDRAWALS.
- TWO SCENARIOS, FIRST ASSUMES CONVERSION TO ROTH IRA, SECOND ASSUMES ALL REMAINS AS IS.