



Since 1979

Mail all
correspondence to:

4720 N. Croatan Hwy.
Kitty Hawk, NC. 27949
252-261-1040
FAX 252-261-0425
hac@obxcpa.com

Hatteras Island Office
Outer Beaches Realty Bldg.
Avon, NC 27915
252-995-6831
hac@obxcpa.com
www.obxcpa.com

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Year of the ROTH Conversion

By: David Warner, Wealth Management and Investment Advisor

Beginning in 2010, the rules surrounding conversions of IRA money to ROTH IRA money are changing. In years past, a MAGI (Modified Adjusted Gross Income) of less than \$100,000.00 was required to convert; not so any longer. This change, along with the removal of the restrictions against Married Filing Separately filers from converting, makes conversions available to just about everyone. And 2010 is an opportune time to consider this option.

The decision to convert should be made with care and several factors should be considered. Three key factors for consideration include:

1. Taxes

If you are in a lower tax bracket today than you expect to be in at retirement, you might consider a conversion. You would pay lower taxes on the conversion than you may pay upon distribution at retirement.

2. Time

The relative conversion benefits increase over time. If it is your intent to distribute money from your ROTH shortly after conversion, than a conversion may not make sense.

3. Cost

If you cannot pay the taxes you will owe with a conversion with cash on hand or other non-retirement savings, the cost of conversion may outweigh potential benefits.

Eligibility to convert in 2010 does not automatically make it a good idea. If a ROTH conversion did not make sense for income tax purposes before 2010, it probably will not at this juncture. Consult with your tax and investment advisor to learn more.

David Warner is a wealth management and investment advisor at Hutchins Allen & Company, P.A. If you would like to speak to David, you can call him at (252) 261-1040.

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