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Financial & Retirement Planning for Life

Tax Planning Needn't Await the End of the Year

The word from tax specialists is that few changes are likely for the 2010 tax year – the personal exemption (\$3,650) and the gift-tax exclusion (\$13,000), among other tax-related figures, are expected to remain as they are. But 2009 taxes have yet to be reckoned, and now is a good time to plan your strategies and consider tax-savings moves before December 31 shows up on your calendar.

Keep your likely tax bracket in mind, and be aware that short-term capital gains, interest and dividends

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Material prepared by Raymond James for use by its financial advisors

2010 – Year of the Roth Conversion

Unless you've been on a long vacation, you've probably seen or heard that 2010 may be ideal for converting traditional IRA funds into Roth IRAs. Sometimes, the financial press can devote a lot of space to wild ideas. This isn't one of them. Next year may be an excellent time to consider making the change.

Like nearly everything in the financial sphere, converting to a Roth may represent anywhere from a distinct to a minor advantage for some investors, to a possibly unwise move for others.

All this comes to the fore in 2010 because of special factors. If in the past your income prevented you from contributing or converting to a Roth IRA, take note. Beginning in 2010, there will be no income limit on conversions (but limits remain on establishing new Roth IRAs). In addition, any resulting federal tax obligations due on converted amounts can be spread over your 2011 and 2012 tax returns.*

Roth Advantages

Contributions to both kinds of IRAs grow tax-deferred, but unlike tradi-

tional IRAs, Roths are funded with after-tax money and qualified distributions are tax-free. That is, when you withdraw funds, you won't pay any tax on that income. Withdrawals from traditional IRAs count as regular income – and once you reach 70½ you're required to begin withdrawing the funds according to an Internal Revenue Service table, even if you don't need the money. You're not required to withdraw Roth funds, which means they can be an ideal way to pass along wealth to beneficiaries – who also won't have to pay tax on withdrawals.

A Roth conversion may seem ideal, but there are several inconvenient facts. Chief among them is that income tax is due on the conversion amount: pretax dollars contributed to the traditional IRA. That is, if you have contributed \$25,000 pretax to a traditional IRA and decide to convert it to a Roth, you'll have to pay the income tax on that \$25,000 at your prevailing rate, and this could also move you into a higher tax bracket.

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*The option to spread the federal income taxes over two years applies to 2010 only. Conversions in subsequent years are included in income during the tax year in which the conversion is completed.

Tax Planning *(continued from page 1)*

from money market mutual funds and real estate investment funds, for example, are taxed as income (up to 35%), whereas long-term capital gains and qualified dividends are taxed at 15%.

If an investment didn't work out as expected and you're convinced giving it more time won't help, you might consider selling it at a loss before year's end. Losses can be beneficial in that they directly offset capital gains, as well as up to \$3,000 of ordinary income (any excess is carried over to future years).

Have you fully funded your 401(k) or 403(b) account (\$16,500 plus another \$5,500 if you're 50 or older) and/or your traditional IRA (\$5,000 plus another \$1,000 if you're 50 or older)? You have until April 15, 2010, to finish topping up your 2009 IRA. Take advantage of any investment growth by funding a 2010 IRA in January. Have you funded a tax-advantaged method of saving for

your children's or grandchildren's college educations? You may realize a state tax break by funding certain plans.

RMD Rollover?

Don't forget to roll back any unneeded required minimum distributions (RMD) from your traditional IRA. You can put the money back into an IRA without penalty or tax consequences as long as you do so within 60 days of receiving it or by November 30, whichever is later. RMDs are considered ordinary income, but the requirement to take one was suspended for 2009. It returns in 2010.

There's much more to consider, including charitable giving, deciding when to exercise stock options and projecting whether you could be subject to the alternative minimum tax (AMT). Think through the possibilities before the year's end is in sight. I'll be happy to assist, so don't hesitate to call me. ■

Roth Conversion *(continued from page 1)*

In addition, to take advantage of all the features of the Roth, you may have to wait until the converted amount has been in the Roth for five years.

If the conversion idea appeals to you, carefully assess the value of converting to a Roth, taking into account the possible advantages and disadvantages. Is there enough time, for example, for the account to recover value lost from the tax hit? Are there non-IRA funds available to pay the taxes? Should you make a partial conversion, which would let you take advantage of the 2010 rules, yet not overburden you with tax obligations?

These are the major considerations, but there are other factors to consider, too. I'll be happy to help out. Just give me a call. ■

Unless certain criteria are met, Roth IRA owners must be 59½ or older and must have held the IRA for five years before tax-free withdrawals are permitted. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

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