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This is the year to convert your 401k to a Roth IRA because of the new, temporary tax laws. The income tax can be offset by our Boat-As-A-Business program which can offer you any offsetting tax advantage you choose, up to about \$300,000. Note, this BAB tax advantage will be significantly reduced next year.

Is The New 401k Roth IRA Conversion The Right Move For Me?

Much has been written about the ability for individuals to roll over from a 401(k) plan to a Roth IRA, starting this year. Married couples filing jointly and single taxpayers earning under \$100,000 in modified adjusted gross income per year were able to participate in Roth IRA rollovers in 2009.

However, what is new for this year is individuals earning over \$100,000 can benefit from the individual financial planning this allows, regardless of their filing status.

The concept is simple. Individuals may elect to receive a distribution of traditional pretax 401(k) salary deferral, matching and employer contributions, and to roll over funds to a Roth IRA. After receiving the distribution, an individual pays current taxes on the distribution amount.

Then, the amounts rolled over grow tax-free without being subject to future income taxes. Individuals deciding whether or not to begin a Roth rollover must consider numerous issues, including their level of taxation in 2010 and their anticipated level of taxation in retirement.

The primary advantages of a Roth IRA distribution include:

- No future individual income taxes are paid on distributions from a Roth IRA, and funds grow tax-free.
- Unlike traditional IRAs and 401(k)s, money in a Roth IRA is not subject to the minimum required distribution rules that start at age 70 1/2. Thus, if an employee retires at age 68, the funds can keep growing tax-free in a Roth IRA even after the retiree reaches age 70 1/2.
- Significant amounts may be transferred to spouses and children without being subject to income taxes, depending upon estate and state tax issues.

Issues to consider

The primary disadvantage for a Roth IRA rollover is whether or not an employee guesses correctly. Popular planning ideas on this issue include:

- An employee may pay taxes in 2010 on the full amount of the Roth IRA rollover. Most practitioners believe that the lowest effective tax rate will be available for highly compensated employees in 2010. Most highly compensated individuals will pay alternative minimum taxes at a 30% tax rate in 2010.



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- Individuals can choose to have the amount received in 2010 taxed over two years in 2010 and 2011, and not be required to file a tax return until April 15, 2011 for the 2010 tax year. Thus, an individual can decide whether or not they wish to spread the income taxes over two calendar years, with hindsight to determine whether tax rates have increased significantly as of Jan. 1, 2011.
- The 10% excise tax on early withdrawals does not apply to direct Roth IRA rollovers. Other articles and computer models have reviewed the math associated with the Roth IRA rollover election. However, these frequently overlook whether an employer's qualified retirement plan actually permits a distribution. To accomplish a Roth IRA rollover, a distribution event must exist, such as an employee leaving an employer or turning age 59 1/2.

Why a Roth IRA?

A Roth IRA, like a traditional IRA, is a tax effective/differed retirement savings plan. Unlike the traditional IRA though, once you reach age 59½, you may qualify for **tax-free withdrawals of both contributions and any accumulated earnings**. In addition, you're never required to take distributions, making a Roth IRA an effective option for both retirement and estate planning purposes. <http://www.savingtoinvest.com/2010/03/traditional-versus-roth-ira-2010-and.html>

Other Resources (from the internet generally)

1. Frequently asked questions: http://www.investsafe.com/development/faq_p1.html
2. Discussion: <http://www.investopedia.com/articles/retirement/09/roth-401k-rollover.asp>
3. Discussion with details and many links: <http://www.rothira.com/>
4. One more take with comparisons: <http://www.money-zine.com/Financial-Planning/Retirement/2010-Roth-IRA-Conversions/>
5. Comparison calculator: <http://www.moneychimp.com/articles/rothira/rothcalc.htm>