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Does Converting Your Traditional IRA to a Roth IRA Make Sense?

Melville, NY...

Wealthy investors now have the option of converting their traditional Individual Retirement Accounts (IRAs) to tax-free Roth IRAs, something previously allowed only for those with incomes less than \$100,000. According to Charles Massimo, president of CJM Fiscal Management (www.cjmfiscal.com, Melville, NY), an independent wealth management and financial advisory firm, the roll-over provides many significant benefits.

“Future earning in a Roth IRA will be fully tax-exempt, and investors can make future contributions to these tax-free accounts,” said Massimo. “By converting to a Roth IRA, investors can also lock in today’s tax rates and hedge against higher rates which many believe are inevitable.” Massimo did, however, note that a Roth IRA roll-over is not without any stipulations.

“Earnings in a Roth IRA are tax-free only if the Roth owner is at least 59-1/2 years old and has owned the Roth for a minimum of five years,” added Massimo. “Additionally, there is an upfront tax that has to be paid on any money that hasn’t already been taxed when electing to convert a traditional IRA to a Roth IRA. This tax bill can be paid either when you file your 2010 tax returns, or it can be deferred and split between your 2011 and 2012 tax returns. While generally, deferring income for future tax might make sense, wealthy taxpayers, already in a high tax bracket, will face even higher taxes under President Obama’s budget proposal – that is, from 33% and 35% to 36% and 39.6% in 2011. Therefore, they should make the decision regarding when to pay the upfront tax based on the tax rate changes and what they project their future income and tax bracket will be.”

For the wealthy who do not need to access their Roth assets for living expenses, this investment can be an effective estate planning tool in that it provides a source of tax-free income to heirs and is only affected by minimum distribution requirements which are stretched over the inheritor’s lifetime. A Roth IRA is also an effective tool against estate taxes since it minimizes assets for which income tax is due and the associated estate tax impacts.

Massimo explained that to determine whether it makes sense to convert a traditional IRA to a Roth IRA, individuals should have the calculations performed based on their specific situation. Beyond wealth, age is also an important factor. The younger and farthest away from retirement you are, the more likely you would benefit from a Roth IRA rollover. Individuals who plan to leave their IRA to charity would not benefit from a conversion.

For more information on this subject, contact: CJM Fiscal Management: 631-777-1030.