

The Greatest Tax Break of Your Life:
What James Lange CPA/Attorney says Taxpayers with AGI
Greater Than \$100,000 Need to Know about the New
“Open Season” for Roth IRA Conversions

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Interviewer

In the simplest terms, could you please tell us what the latest Republican tax plan does for the American taxpayer?

Jim

The *Tax Increase Prevention and Reconciliation Act (TIPRA)* extends the favorable capital gains rate and dividends rate of 15% from 2008 through 2010. It also gives 15.3 million taxpayers a break on the alternative minimum tax. Plus, there is an interesting twist with respect to Roth IRAs. In 2010, wealthy Americans, with modified adjusted gross incomes of \$100,000 or more will be granted a unique opportunity – they will, for the first time, qualify for a Roth IRA conversion.

Previously, taxpayers with a modified adjusted gross income of \$100,000 (or more) were not permitted to make a Roth IRA conversion. The compelling reason to pay attention to the change is that individual IRA owners who have modified adjusted gross incomes of more than \$100,000 can enjoy a huge windfall by taking advantage of the opportunity to convert.

Interviewer

Can you give me a simple example of what this might mean to a taxpayer?

Jim

Let’s say that you and I have the exact same amount of money, we make and spend identical amounts of money, our investments are the same, etc. Just by taking advantage of the new law, I could be better off by \$125,000 than you in 20 years. If we both die in 20 years and leave our estates to our children, when your children are older, they would have spent their inheritance and my kids would still have \$2,000,000.

In that example, I assumed we had each had an IRA of \$250,000, we were in the top tax bracket and converted all of the IRA in the year 2010. Under the old law, if you made more than \$100,000 you were not allowed to make a Roth IRA conversion. Under the new law (TIPRA), anyone with an IRA *can* make a Roth IRA conversion in 2010.

Interviewer

What exactly are you “converting” when you make a Roth IRA conversion?

Jim

You are converting your traditional tax-deferred IRA to a Roth IRA

Interviewer

Let's back up here a bit. Can you explain the difference between a Roth IRA and a traditional IRA?

Jim

Let me give you an analogy for thinking about the differences between a traditional IRA and a Roth IRA. When you make a contribution to a traditional IRA or any type of qualified retirement plan, you are making a tax-deferred contribution, and you will pay taxes when you make withdrawals after you retire. The taxes, so to speak, fall on the "harvest." But with a Roth IRA the government is taxing the "seed." That is to say when you invest in a Roth you pay the taxes initially, but the "harvest" comes out tax-free. When you convert a traditional IRA to a Roth IRA, you have to pay the taxes on the converted amount, however, when it comes time to take that money out—there are no taxes to pay. That means that the growth on the investment is tax free.

Interviewer

Does this have to be an all or nothing deal, or can someone convert part of their IRA to a Roth?

Jim

This is not an all or nothing proposition. Roth IRA conversions can happen incrementally over time, or only on a fixed portion of the IRA.

Interviewer

Why would someone want to pay the taxes up front?

Jim

Usually "pay taxes later" is my mantra, and very good advice to plan with. However, I have always been a strong supporter of Roth IRA and Roth IRA conversions. On this particular issue the better advice for many viewers is pay taxes now.

If they pay taxes now, they will never have to pay income taxes on the Roth IRA again, including the growth, capital gains, dividends, interest etc.

Interviewer

Do you have a "rule of thumb" for quantifying the potential benefit of a Roth IRA conversion?

Jim

The benefits of Roth IRA conversions for the family are simply phenomenal. An estimate is that a taxpayer's family could benefit in the amount calculated from the following formula. Take the current balance of your IRA, multiply it by 50% and that is how much better off you will be in twenty years. If you multiply that balance of your

IRA by 8, that is how much better off your children might be if you make a Roth IRA conversion, die in twenty years and leave your Roth IRA to your children.

Interviewer

Should all taxpayers be thinking of making a Roth IRA conversion?

Jim

The Roth IRA conversion benefits many, but not all taxpayers. In general, if you can afford to pay the taxes on the conversion with funds outside of the IRA, there may be great benefits to you making a Roth IRA conversion.

Interviewer

How will this idea play out if there are changes in the tax rates?

Jim

If tax rates go up (which is certainly conceivable...especially for our children) then the Roth IRA conversion is even better. Think about how it will feel to be taking money out of the inherited Roth IRA tax-free when other people are taking minimum distributions from inherited IRAs and paying 50-75% (hypothetically) in taxes...

On the down side, if the income tax is abolished then it will have been a mistake.

Interviewer

What is your reaction this new opportunity?

Jim

If I was a Bush detractor and/or a liberal democrat, I would be crying foul, this is a hugely unfair tax break that only benefits the extremely wealthy that will literally and radically accentuate the class differences in the United States for the next three generations.

If I was making more than \$100,000 or even if I was making less than \$100,000 and acting in my own best financial interest, I would attempt to get more information to decide if a Roth IRA conversion is appropriate for me.

Interviewer

If you are in that situation, that is, you are making more than \$100,000 or for that matter if you are making less than \$100,000 and you are interested in the benefits of a Roth IRA conversion, do you have any resources for interested individuals?

Jim

Yes I do. If interested individuals go to www.retiresecure.com, and sign up, I will send them a FREE report on the benefits of Roth IRA conversions.