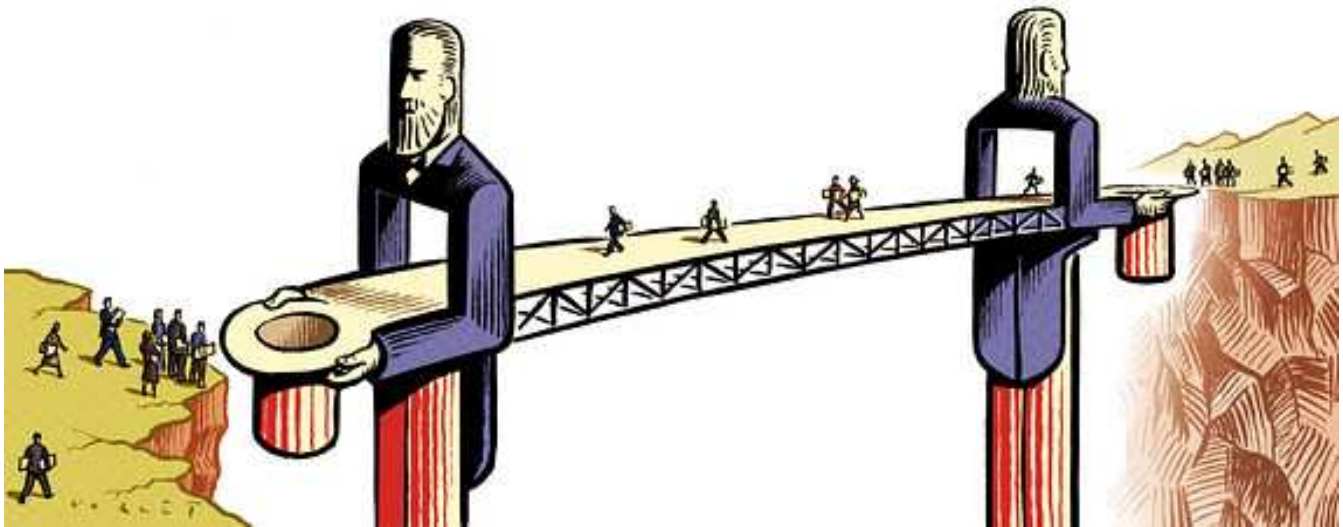


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By Annie Gasparro

Why You Shouldn't Convert to a Roth IRA



June 14, 2010 Comments

Traditional IRA holders are not taxed on the post-tax value of their conversions.

For example, the conversion of a \$20,000 traditional IRA with \$20,000 of post-tax contributions would not be taxed.

Unfortunately, the IRS prohibits converting only post-tax portions of Traditional IRAs.

For example, the conversion of a \$20,000 traditional IRA with \$10,000 of post-tax contributions would only see 50% taxed, while the 50% that was post-tax contributions is not taxed. At the highest federal income tax of 35%, the \$20,000 conversion would generate \$3,500 in taxes.

One powerful way to offset federal income taxes from conversions is to simply make pre-tax contributions to employer sponsored retirement plans, such as 401(k)s, 403(b)s and 457(b)s. At the highest federal income tax of 35%, a \$10,000 contribution would reduce your federal income taxes by \$3,500 - a 100% offset to the second example above.

Unlike traditional IRA owners who must worry about Required Minimum Distributions (RMDs) starting at age 70 ½, Roth IRA owners are not subject to RMDs.

Note: Heirs who inherit Roth IRAs are subject to non-taxable RMDs.

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