

FINANCIAL OUTLOOK

Innovative Strategies & New Opportunities Ahead with Roth IRAs

Tax diversification can be as important as portfolio diversification in a long term financial plan. Many of our clients do not really know whether their taxes will be up or down in their “income distribution years” (formerly known as *retirement*). None of us can accurately predict whether the current favorable tax rates for long term capital gains and qualified dividend income will be extended by future administrations.

Your defense against these tax uncertainties, rising longevity and inflation risks, entails giving proper consideration to structuring a portion of tax-free cash flows to accompany the taxable cash-flows during your distribution phase of life. Wouldn't it be nice to have the flexibility to choose which pot of money to tap depending on your tax situation at the time?

You probably knew that you were ineligible to convert your retirement plan into a Roth IRA when a couple's *Modified Adjusted Gross Income* exceeds \$100,000.

But in year 2010 only, that income ceiling will be lifted.

That means, if the numbers work in your favor, you can convert some or all of your qualified retirement plan assets to a Roth IRA, regardless of your current income level. The potential benefit of this strategy is that after paying the taxes on conversion, the future earnings and growth of the Roth IRA assets will *never* be subject to income taxes again.

When would this make sense?

- We can run the numbers to determine whether some or all of your current retirement plan assets will provide you with more net cash flow if taxed/converted now and allowed to grow tax-free until the time it makes sense to draw cash flows from your tax-free pile. (You can elect to spread the tax liability over the *following* 2 years: 2011 and 2012).
- If your plan includes leaving Roth IRAs to beneficiaries –

The IRS will not force you to take distributions from your Roth IRA when you reach a certain age – thereby preserving the legacy to your beneficiaries – and your beneficiary will *never* pay income taxes on the distributions.

- If your plan includes funding a child, grandchild, or spouse's qualified educational expenses subsequent to your death - the benefits are three-fold:
 1. Your child, grandchild, or spouse beneficiary of your Roth IRA can take distributions to pay for tuition, fees, books, and supplies at qualified educational institutions, which AVOID the normal 10% penalty if they are under age 59 ½.

2. The student may still qualify for federal college financial assistance, because assets in retirement accounts are not counted as available funds for the "Expected Family Contribution."
3. Roth IRAs deliver a dual retirement-college virtue over 529 college savings plans. 529 plan assets must be used for educational purposes to avoid taxes. However, if your intended beneficiary receives unanticipated scholarships to pay for college - or even decides against going to college, Roth IRA assets can still be used to supplement the beneficiary's retirement, (or to pay for medical expenses, disability expenses, or the first \$10,000 to purchase a 1st home, under certain qualifications) all income tax free.

What should you do now to plan ahead for this single-year opportunity in 2010?

1. Ask us to run calculations on all your current retirement plan assets to determine whether your traditional IRAs & other tax-deductible plans will provide LESS after-tax income than from a converted Roth IRA at various future tax rates and investment returns. (You may be surprised at the ages for which this strategy works well.)
2. Even if you have to make non-deductible contributions because your income exceeds the thresholds, contribute the maximum allowable amounts to an IRA for years 2007, 2008, 2009, and 2010. (You have until April 15th '08 to make your year 2007 contribution of \$4,000). You'll add another \$4,000 for year 2007 + \$5,000 per years 2008-2010 + \$1,000 catch-up contributions per year for those aged 50 and over.

You will be supercharging your retirement plan and Roth conversion opportunities for year 2010.

3. Begin to budget for paying the taxes on the Roth IRA conversion – from your personal funds outside the IRA, in order to further boost the savings potential. (Remember you can split the tax liability over years 2011 and 2012 for making the Roth conversion in year 2010).

As always, we promise to seek and deliver to you special opportunities to build and preserve your wealth, as well as your confidence in our firm.

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