

# Consumers Digest

## AVOID BIG LOSSES ON ROTH CONVERSIONS

This year taxpayers no longer are required to have a modified adjusted gross income of [less] than \$100,000 to convert a traditional individual retirement account to a Roth IRA. However, many folks plan to convert only their non-deductible IRAs, says Burk Rosenthal of Rosenthal Retirement Planning. “But if they have other IRAs, this could present a problem,” he warns, because you must “pay tax on the conversion based upon the percentage of untaxed value in all non-Roth IRA accounts.”

For example, take a person who has one IRA that has \$80,000 from a 401(k) rollover and another IRA that totals \$10,000 from \$9,000 in after-tax contributions and \$1,000 in gains. (None of that gain has been taxed.) You must “pay tax on the conversion based upon the percentage of untaxed value in all non-Roth IRA accounts,” Rosenthal says. In this example, the total untaxed value of all non-Roth accounts is \$81,000, which is 90 percent of the total \$90,000 value of all non-Roth IRA accounts. Therefore, 90 percent of the IRA that is being converted will be included in taxable income, or, in this case, [\$81,000]. To prevent double taxation, you must file IRS Form 8606 to apply the additional taxable basis (\$9,000 in the above example) to the prior taxable basis (also \$9,000) from after-tax contributions.

Stacie Zoe Berg is an award-winning journalist and author of several books. Stacie Zoe Berg is not a NPC representative; opinions expressed by her are not endorsed by NPC or RRP. Information is provided for illustration purposes only. Consult with a tax advisor prior to taking action.

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