ROTH TAX SAVING MOVES IN 2010

A new tax saving opportunity starts effective January 1, 2010.

High income taxpayers will get access to Roth IRAs, because the income limit on converting a regular IRA to a Roth IRA disappears. Currently, only taxpayers who have adjusted gross incomes ("AGI") of $100,000 or less are allowed to convert their regular IRAs to Roth IRAs. A rule that prohibits married couples who file separately from converting their IRAs is also eliminated beginning January 1, 2010.

Being able to convert a regular IRA is the key to getting around income limits on direct Roth payins. This year, those limits bar married couples with AGIs above $176,000 and single with AGIs over $120,000 from making Roth IRAs payins.

Upper bracket filers can get a head start this year on creating a Roth IRA by setting up a regular IRA during 2009 and making nondeductible contributions to it. In 2010, you can convert it to a Roth IRA, paying tax only on the earnings. For individuals who already have IRAs with deductible payins, the tax treatment of the conversion is less favorable. In that situation, the tax free portion is based on the ratio of any nondeductible contributions to the total in all of their regular IRAs.

Filers converting in 2010 get an added benefit: Extra time to pay any tax on the sum of deductible contributions and accumulated earning in the regular IRA. Half of that income can be reported on the 2011 tax returns and the rest with the 2012 tax returns. The delay gives people time to put aside funds to avoid tapping their IRAs for the tax.

Making a switch early in 2010 may help taxwise. You owe tax on the value of the IRA as of the conversion date. Assuming the Roth's value grows during 2010, you will owe less tax than if you wait until late in the year. If the Roth's value declines during 2010, there is a way out. You can unconvert without paying any income tax whatsoever, as long as you do so by the due date of your 2010 tax return plus any extensions. But if you reconvert in a later year, you will not get the benefit of the two year spread.

Taking the tax hit from converting to a Roth IRA can reap dividends late on. Unlike a regular IRA, all distributions from a Roth IRA are generally tax free after age 59 and ½. Filers who expect to be in a lower bracket in retirement should not do the switch.

Moving to t Roth IRA may make sense even for some people who have reached age 70 and ½. There are no minimum distribution requirements on Roth IRAs, so senior who are able to pay the up-front tax on conversion can maintain a tax free next egg for their heirs.

Factor in the likelihood of future tax increases when deciding what to do. Odds are Congress will go along with President Obama's plan to bring back the 39.6% top tax rate.