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Forever After Tax Free

A Savings Opportunity for the High-Income Households - Convert a Non-deductible Traditional IRA to a Roth IRA

Currently, taxpayers may not convert traditional IRAs into Roth IRAs if their incomes exceed \$100,000 and may not contribute to Roth IRAs if their 2008 incomes exceed \$169,000 (for married couples filing jointly) or \$116,000 (for singles and heads of household). Regardless of their income level, however, households may contribute to non-deductible traditional IRAs.

These income limits on Roth IRA conversions are eliminated beginning in 2010. The lifting of the income limits on conversions effectively eliminates the income limits on contributions to Roth IRAs as well, by making possible a two-step process that circumvents those limits.

First, high-income households would be able to contribute several thousand dollars every year to a non-deductible traditional IRA, for which there is no income limit. Then, second, starting in 2010, they could convert the non-deductible IRAs to Roth IRAs.

Example: Consider a married couple with present income above the \$169,000 Roth IRA contribution limit. Each year, the couple could contribute \$10,000 (\$5,000 each) to a non-deductible traditional IRA. The contribution amount increases with inflation thereafter. Then, beginning in 2010, the couple would be able to “roll over” the amount that had accumulated in the non-deductible IRA into a Roth IRA (paying tax only on the returns the IRA account had earned to that point), and all earnings on the Roth IRA from that point forward would be forever tax free. For the 2010 tax year, a special benefit is extended to taxpayers, allowing them to pay the tax associated with the conversion over a two-year period.

Moreover, in every year after 2010, the couple could deposit \$10,000 in a non-deductible IRA, convert those funds into a Roth IRA, and pay no tax on the amount converted (since the conversion would be from a non-deductible IRA containing contributions made with after-tax dollars). This process could be repeated every year. Over time, the couple could build its tax-protected Roth IRA into a very substantial nest egg, with the account being permanently sheltered from taxation.

Contact UPAL to help establish your non-deductible IRA today, 747-5585.

There is still time to make a non-deductible IRA contribution for the 2007 tax year. You have until April 15, 2008 to make a 2007 contribution.