Merrill Lynch Has Answers for Roth IRA Questions

By Editor Test *Wed, Nov 18, 2009*

Merrill Lynch has given its financial advisors a "customized analysis tool" to help clients determine if a Roth IRA conversion is right for them.

A new Merrill Lynch Wealth Management white paper offers a detailed discussion of the Roth IRA conversion option that becomes available January 1 to those with an adjusted gross income of more than $100,000, thanks to a clause in the Tax Increase Prevention and Reconciliation Act of 2005.

The document, which asserts that a Roth IRA conversion isn't necessarily for everybody, makes several important points. Among them:

Part of the conversion may not be taxable. If you made nondeductible contributions to a traditional IRA, you won't be liable for income taxes on that money when you convert it to a Roth IRA. You must aggregate all of your IRA assets, determine the pre-tax amount, and multiply it by your tax rate to determine the income tax due.

Delay half of your tax until April 2013. If you convert a traditional IRA to a Roth IRA in 2010, you can either recognize the converted assets as income in 2010, or you can recognize half the income in tax year 2011 and half in tax year 2012. That is, you can pay your tax on half the distribution as late as April 16, 2012 and the tax on the other half as late as April 15, 2013.

Can't make up your mind? Change it. If you decide that you don't want your Roth IRA, you can "recharacterize" it back to a traditional IRA and absolve yourself of the tax liability on the conversion.

Generally, the deadline for re-characterization is the due date for your tax return-April 15 of the year after the year of the conversion-but you can re-characterize until October 15 if you filed the original tax return on time. It's even possible, according to the white paper, to convert the assets of a traditional IRA to several Roth IRAs and recharacterize only those that lose value.

You can convert a former employer's 401(k) to a Roth IRA. Since you can convert an old 401(k) to a rollover IRA, you can also convert it to a Roth IRA. The same is true for an inherited 401(k) account, an old 403(b) account, a 457 plan, a profit-sharing or money purchase plan, SEP-IRAs and SAR SEP-IRAs. You can also convert SIMPLE IRAS that have existed for at least two years.

Merrill Lynch says it has furnished its financial advisors with a "customized analysis tool" so they can help their clients determine if a Roth IRA conversion is right for them, given their age, retirement income needs, expected tax bracket in retirement, existing taxable accounts, legacy aspirations, and so forth.