Roth IRA Opportunities

Hamilton

Charitable Deductions Can Smooth the Path to a Tax-Free IRA
New Opportunity to Convert to a Roth IRA – at Reduced Tax

Roth individual retirement accounts can offer tremendous tax and financial advantages.

- Any amounts you take out after age 59½ will be tax free – five years after your first contribution or conversion from a regular IRA. All withdrawals also become tax free following death or disability, or when used for “qualified first-time homebuyer expenses.”

- Unlike traditional IRAs, you won’t face mandatory annual distributions after age 70½, so your savings can be left to grow tax free until needed or left to your heirs. Note: People who inherit your Roth IRA will be required to take annual distributions.

Eligibility Now Expanded

Roth IRAs historically have been off-limits to taxpayers above certain levels of income. For 2009, individuals couldn’t contribute to a Roth IRA if their modified adjusted gross income exceeded $120,000 ($176,000 for joint returns). Converting a traditional IRA to a Roth was prohibited at income levels above $100,000 through 2009.

But as of January 1, 2010, all taxpayers—regardless of income—have the option of converting traditional and “rollover” IRAs to Roths, guaranteeing that future withdrawals will be free of income tax. The new opportunity may be especially helpful to people who have “rolled over” 401(k)s and other plans into IRAs when they retired or changed jobs.
**Taxes Can Be a Challenge**

The "fly in the ointment" is that funds transferred from regular IRAs into Roth IRAs are treated as taxable income. Taxpayers do have the option, for 2010 conversions only, to stretch reporting of such income over 2011 and 2012. But proposals for higher tax rates after 2010 could impair that strategy.

The decision to convert to a Roth IRA hinges on a wide variety of factors, such as a person's current and projected income tax rates, age, capability of paying the "conversion tax" (without using IRA money) and ability to let the Roth account grow undisturbed as long as possible. Of course, if there has been a significant decline in the value of a person's traditional IRA, such as occurred during the recent stock market downturn, the tax cost of converting to a Roth IRA may be more manageable.

**A Perfect Time for Charitable Giving**

Friends who wish to assist our programs might find the timing right for charitable gifts that offset, in whole or in part, the tax cost of a Roth IRA conversion. One appealing gift vehicle for this purpose is the deferred payment charitable gift annuity.

Take the case of Sheila, age 60, who plans to convert $25,000 from her traditional IRA into a Roth IRA. She'll be taxable on that $25,000 unless she can somehow come up with additional itemized deductions. Sheila might decide to transfer $65,000 from her money market account for a deferred payment gift annuity.
The gift annuity would begin paying Sheila $5,590 (8.6%) at age 70, but she also receives an *immediate* income tax deduction of about $25,000 that erases the Roth IRA conversion tax. After five years, all withdrawals from her Roth IRA will be tax exempt, and a portion of her future gift annuity payments will be tax free, as well. Her gift annuity agreement can contain an option to start payments before age 70, at reduced levels.

☐ I would like to know more about planning gifts that maximize charitable deductions, including:
  ☐ gifts of investment assets
  ☐ cash contributions
  ☐ gifts that provide me or my family with lifetime income

☐ I am pleased to say that I have made you a beneficiary of my estate in the following manner:


Name ________________________________

Address ________________________________

City ______________ State ______ Zip______

Daytime Telephone ________________________________

E-mail Address ________________________________
More Options for Large Deductions

IRA owners should consider bunching several years’ worth of annual contributions into one large gift in the year of a Roth conversion. Suppose you normally contribute $5,000 every year. In the year of your Roth IRA conversion, you could make five years’ worth of gifts ($25,000) all at once, possibly using appreciated securities, and thereby reduce your “conversion tax.”

Charitable remainder trusts can also provide large deductions, plus lifetime income and additional flexibility in one’s tax and financial planning. People planning to convert very large IRAs might consider establishing “grantor” charitable lead annuity trusts that make payments for a fixed time period to qualified organizations, then returns all trust assets to the donor or the donor’s family. Donors who have carryover deductions from past years’ gifts can use up more of their old deductions when they convert to a Roth IRA.

Please keep in mind...

- It’s possible to convert only a portion of a traditional IRA to a Roth, then convert additional amounts in future years, based on your tax situation and availability of funds to pay the tax;
Even if your income is too high to set up a Roth IRA, you can still fund a traditional IRA in one year and convert it to a Roth the next;

You can call our office for information on planning for maximum charitable deductions – for Roth IRA conversions or any purpose.

A Final Word

The decision to convert to a Roth IRA needs careful consideration and probably the help of a financial adviser. Our office can help with illustrations of gift plans that will be of assistance to you and your advisers.

All inquiries should be addressed to:
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This publication is not intended as legal advice. Consult your advisers.