

Converting

from a Traditional IRA to a Roth

WEST-AIRCOMM FEDERAL CREDIT UNION

485 Buffalo Street • P.O. Box 568
Beaver, PA 15009-0568

Telephone: 724-775-6640 • www.westaircomm.com



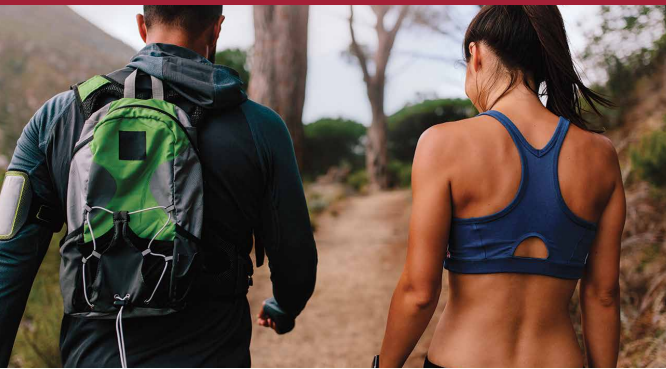
Federally insured by NCUA



This brochure is for general information only and is not intended to provide specific advice or recommendations for any individual. It is important to note that the IRS may provide more guidance with respect to new rules and therefore the information provided is subject to some modification.

We suggest that you consult your attorney, accountant, financial or tax advisor with regard to your personal situation.

Know all tax consequences
before converting.



Am I eligible to convert to A Roth IRA?

Anyone can convert their eligible IRA assets to a Roth IRA regardless of income or marital status. As of 2010, the \$100,000.00 modified adjusted gross income (MAGI)* limit and the married filing separate tax filing restriction have been eliminated for conversion eligibility.

Note: the income eligibility requirements for a conversion IRA are not the same as the requirements for opening a new Roth Contributory IRA.

What about taxes?

When you convert a traditional IRA to a Roth, you will owe taxes on any money in the traditional IRA that would have been taxed when you withdrew it. That includes the tax-deductible contributions you made to the account as well as the tax-deferred earnings that have built up in the account over the years. That money will be taxed as income for the year you make the conversion.

Can I afford to convert to A Roth IRA?

Keep in mind that converting to a Roth IRA requires you to pay taxes on funds moved from your traditional IRA. If all of your contributions were tax-deductible, you would owe taxes on the entire amount; if you made nondeductible contributions, you will not be taxed on the contributions that were previously taxed.

If you are under 59½ and use your IRA funds to pay the tax, the IRS would view this as a distribution and impose a 10% penalty on top of the income tax resulting from the conversion. So, unless you can pay this tax from a source outside of your IRA, you could deplete your retirement savings significantly.

What other facts should I consider before converting to A Roth IRA?

First, consider your tax bracket in the year that you convert and what you expect it to be in your retirement. If you project your income to be lower when you start making withdrawals, you would be in a lower tax bracket than you are now. It may be beneficial for you to keep your money in a traditional IRA.

Second, the more years you have until retirement, the more your money has time to accumulate tax-free earnings and the more conversion makes sense for you. You will also have more time to offset the impact of the taxes you paid at the time of conversion.

Must I convert my entire Traditional IRA?

No, it's up to you. Partial conversions are allowed, as are conversions from a number of traditional IRAs. You may want to make a partial conversion if you don't want to have the tax expense of a full conversion.

When can I withdraw my conversion money?

You can withdraw your converted assets at anytime. However, if you withdraw any conversion assets and earnings during the five year period beginning with the year of the conversion, the withdrawal will be subject to a 10% penalty that applies to premature distributions (unless a penalty exception applies—the 10% early penalty does not apply if the individual is 59½, deceased, disabled, the funds are for college expenses or first-time home purchase up to \$10,000 and certain medical expenses).

Is there a deadline for conversion?

Yes. December 31 of the current year is the deadline for conversion in any given year, NOT April 15 of the following year (as is the case when funding a traditional or Contributory Roth IRA). It's best to submit a conversion request by December 15 to allow time for the conversion to be processed.

Do I have the option to “undo” my conversion?

Individuals no longer have the ability to later recharacterize, or undo a conversion. The Tax Cuts and Jobs Act of 2017 repeals the rules permitting recharacterizations of Roth conversions made on or after Jan. 1, 2018.