

Tax Alert



Important Information about 2010 Roth IRA Conversions

Beginning in 2010, there are important changes to eligibility rules applied to retirement plan conversions into Roth IRA plans. We are taking this opportunity to explain how these new rules might impact your retirement plan structure and tax liability reporting.

As a result of the Tax Increase Prevention and Reconciliation Act of 2006 (TIPRA), all taxpayers with assets in a qualified retirement plan (traditional IRA, SEP IRA, SIMPLE IRA, 403(b) plan and governmental 457(b) plan) are allowed to convert an unlimited amount to a Roth IRA without regard to the amount of their adjusted gross income or marital status.

Taxpayers who make this election must include the amount of the conversion in their taxable income. If you make the election in 2010, you have two options when reporting the taxable amount:

OPTION #1: REPORT THE TAXABLE AMOUNT IN 2010

Using this option, plan holders report the entire amount of the income in the year of the conversion (2010).

Example: Mr. Smith converts \$800,000 from his traditional IRA to a Roth IRA in 2010. He will include the entire \$800,000 in taxable income on his 2010 return.

\$800,000 Converted into a Roth IRA Declaring the Full Amount in 2010

Tax Year	Amount Included as Taxable Income
2010	\$800,000
2011	—
2012	—

OPTION #2: TWO-YEAR SPREAD ELECTION

Using this option, plan holders include gross income from the year 2010 conversion by reporting only one half of the taxable amount in 2011, and the remaining half of the taxable amount in the year 2012.

Example: Mrs. Wilson converts \$800,000 from her traditional IRA to a Roth IRA in 2010 and elects the two-year spread. In this case, she will declare \$400,000 in taxable income for 2011, and then the remaining \$400,000 in taxable income for 2012.

\$800,000 Converted into a Roth IRA Two-Year Spread Election

Tax Year	Amount Included as Taxable Income
2010	—
2011	\$400,000
2012	\$400,000

With this two-year spread election option, it is important to understand that any distributions from your Roth IRA during 2010 or 2011 may change the timing of your income tax liability.

If you should have questions or would like to understand more about the implications of these changes on your financial plan, please feel free to reach out to your Fiduciary Trust contact or tax advisor.

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**Fiduciary Trust
Company International**

600 Fifth Avenue
New York, New York 10020
tel (877) 384-1111
www.fiduciarytrust.com

Los Angeles
tel (800) 421-9683

Miami
tel (800) 618-1260

San Mateo
tel (877) 284-2697

Sarasota
tel (800) 618-1260

St. Petersburg
tel (800) 618-1260

Washington, DC
tel (888) 621-3464

Wilmington
tel (866) 398-7414

Grand Cayman
tel (345) 914-9483

Hong Kong
tel (852) 2877-1931

London
tel (44) 20-7073-8500

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