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Why You Want A ROTH Account

Money in a ROTH account can grow tax-FREE, not only for the rest of your life, but for your children and grandchildren. Withdrawals are also tax-FREE, and there is no 10% penalty if your account has been open during five calendar years and you're over 59-1/2 - and NO minimum withdrawals at any age.

A traditional IRA or annuity, which we have seldom recommended, converts capital gain and dividends to ordinary income, taxed at a much higher rate. There is no step-up in basis at death. Between federal and state inheritance taxes, plus the personal income tax your heirs may be forced to pay, the governments could take over 90% of your IRA's value. And you must start taking taxable withdrawals at age 70-1/2, which may increase the amount of social security retirement pay which is taxed.

You will definitely want your ROTH account opened before the end of the year, so your 5-year penalty period will start running. One week in December counts for an entire year.

President Obama wants to increase income taxes on the "wealthy" to 45%, from the maximum 35% today. Income tax rates on nearly everyone are likely to rise in 2011, including capital gains and dividends. 2010 may be your last chance to "ROTH" before the higher tax rates kick in.

IRA TO ROTH CONVERSIONS DEADLINE

Did you convert any IRA (401(k), SEP, SIMPLE, etc.) money to a ROTH account in 2008 or 2009? The new account has probably dropped in value since then, which means you paid, or will be paying, tax on more than you converted.

Congress has provided a way out. You can recharacterize your ROTH money to an IRA and therefore have no taxable transaction; 31 days later you can reconvert to your ROTH at the lower valuation.

For 2008 conversions, you have only until October 15, 2009 to act. If you already filed your tax return, you can amend it for a refund of taxes paid on the conversion. For 2009 conversions you can recharacterize if the value has declined, wait 31 days, and reconvert at a lower tax level. Also: if it were to fall further, you have until October 15th of 2010 to decide if you'd like to undo the transaction.

HIGH-INCOMERS CAN NOW ROTH IRA'S

Beginning in January 2010, anyone can convert IRA money to a ROTH account. Use this strategy: If you have a \$500,000 IRA and you'd like to convert \$100,000, open five separate ROTH accounts and convert the entire \$500,000. You have until October 15, 2011 to recharacterize. But you'll have two chances; if you undo any of the conversions by November, 2010, because the value fell, you can reconvert them in 31 days (before the end of the year) at a lower level.

Invest the five accounts in different asset types. If one of the accounts climbs to \$150,000, you'll pay taxes on only \$100,000. Recharacterize the other four.

Although the tax law allows you to opt to pay the tax on your conversion half in 2011 and half in 2012, you may want to pay it all in 2010 at lower tax rates.

There should be little or no brokerage expenses. You can simply move assets directly from your IRA to a ROTH. Minimum distributions cannot be ROTH'ed. Further, once the October 22 deadline is past, you can combine your ROTH's in one account.

Should you be interested in saving thousands, or even tens of thousands of tax dollars, call now for a free consultation.

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