**Traditional to Roth IRA Conversions - Should You? Did You? Wish You Hadn't?**

**Article Highlights:**

- Conversion Timing
- Why Convert?
- When to Convert?
- Undoing A Conversion
- Issues to Consider Before Making the Decision

The tax provision that allows taxpayers to convert a Traditional IRA to a Roth IRA is a great tax-planning tool when used properly, **and timing is everything**.

To make a conversion, you must pay income taxes on the amount of the traditional IRA converted to a Roth IRA. So why would one want to do that? Well, the answer is that Roth IRAs enjoy tax-free accumulation and distributions, whereas the earnings in and contributions made to a traditional IRA are fully taxable whenever they are withdrawn. (An exception is if the contributions to the traditional IRA were treated as non-deductible. In that case, each distribution is nontaxable or partly nontaxable if only some of the contributions had not been deducted.)

So, you might consider converting during a year in which your income is abnormally low or a year in which your income might even be negative due to abnormal deductions or business losses. Under such cases, you might even be able to make a conversion tax-free. Keep in mind that you do not have to convert the entire amount in the traditional IRA; rather, you can choose any amount you wish to convert to fit your circumstances, and with proper tax planning, you can substantially minimize the conversion tax and the tax on your future retirement benefits.

You might also consider a conversion at a time when the IRA value is low due to a decline in the stock market, like the dip in stock values that occurred in September this year when the Dow index dropped from the low 18,000s to close to 16,000.

Those examples demonstrate when timing might be right for a conversion. On the flip side, if you converted earlier in the year, you could end up paying taxes on an amount that has declined in value due to the market downturn and wish you hadn't converted. Well, the good news is that you can undo a conversion.

A taxpayer who converts a traditional IRA to a Roth IRA during 2015 can back out of the conversion by recharacterizing the Roth IRA as a traditional IRA any time up to the extended due date of the 2015 return. This involves transferring the converted amount (plus earnings or minus losses) from the Roth IRA back to a traditional IRA via a direct (trustee-to-trustee) transfer.

Everyone's financial circumstances are unique and other issues to consider are:

- Are there enough years before retirement to recoup the conversion tax dollars through tax-free accumulation?

- Will you be in a lower or higher tax bracket in the future?

- Where would the money to pay the conversion tax come from? Generally, it must be from separate funds. If it is taken from the IRA being converted, for individuals under age 59½, the funds withdrawn to pay the tax will also be subject to the 10% early-distribution penalty in addition to being taxed.
- It might be appropriate for you to design your own custom conversion plan over a number of years rather than converting everything at once.

Conversions can be tricky! If you are considering a conversion, it might be appropriate to call for an appointment so that this office can help you properly analyze your conversion options.