



## **Roth IRA Recharacterizations**

**The Roth IRA recharacterization is one of the few do-overs you get with the IRS.**

The recharacterization allows you to undo (to completely reverse) a Roth conversion as if it had never happened. You will owe no tax on the conversion after you recharacterize the conversion. Any tax you paid on the conversion is refunded after the recharacterization.

Your time to recharacterize is limited. You have until October 15 of the year after the calendar year of the conversion to recharacterize. If you have already filed your tax return, you have until October 15 to amend the return to reflect the fact that you have recharacterized all or part of the Roth conversion.

The recharacterization must be done as a custodian-to-custodian transfer and the funds must go back to a traditional IRA (TIRA), even if the conversion was from a company plan. 60-day rollovers back to a traditional IRA account are not allowed.

Partial recharacterizations are permitted. You do not have to recharacterize the entire amount you converted to the Roth IRA.

2010 Roth conversions are eligible for the special 2-year tax deal. 50% of the amount converted in 2010 goes on your 2011 tax return and 50% of the amount converted in 2010 goes on your 2012 tax return. If any funds converted in 2010 are recharacterized, the earliest those funds can be reconverted to a Roth IRA would be January 1, 2011 - after the deadline for using the 2-year deal expires. Alternatively, you can choose to report the entire amount converted in 2010 on your 2010 tax returns.

The amount you recharacterize is generally not the same as what is actually transferred back to your TIRA account. The amount transferred back to the TIRA includes gains and losses from the investment in which the Roth was placed [mutual fund, CD, stock, bond, etc]. The amount recharacterized is what offsets (reduces) the conversion income.

Only money that was converted to a Roth IRA and remained in the Roth IRA can be recharacterized. If you use a portion of your TIRA to pay the taxes on your Roth IRA conversion (either directly from your TIRA or from the Roth IRA after converting), the amount withdrawn to pay the taxes will not be able to be recharacterized.

## ➤ **October 15, 2010 Deadline for recharacterizing 2009 Roth Conversions**

If you converted a TIRA or pension plan account to a Roth IRA in 2009, you have until October 15, 2010 to recharacterize the Roth IRA back to a TIRA.

There are two reasons you may consider recharacterizing.

1. Your Roth IRA has dropped in value since you converted. You can recharacterize the Roth IRA to a TIRA and then **reconvert** the recharacterized TIRA to a Roth and pay less income taxes (on the 2<sup>nd</sup> conversion) than you would have if you didn't recharacterize.
2. You were ineligible to make a Roth conversion in 2009. To be eligible to convert a TIRA or qualified plan to a Roth IRA in 2009, your MAGI had to be less than \$100,000. If your MAGI exceeded \$100,000 in 2009, you were not eligible to convert to a Roth in 2009. Some people may receive unexpected income after they made their 2009 conversion that increased their MAGI beyond the \$100,000 limit - thereby making them ineligible for the Roth conversion. Additionally, if you were married but filed separately in 2009, you were not eligible to convert to a Roth in 2009.

## ➤ **September 2010 Action Plan**

1. Review any Roth conversions you made in 2009 to determine if a Recharacterization makes sense for you.
2. Because everyone is eligible to make a Roth conversion in 2010, evaluate whether a 2010 Roth conversion makes sense for you.

*Source: Ed Slott 8/2010*

## ➤ **You Cannot Borrow From Your IRA**

- Unlike most company plans (401k, 403b), you cannot borrow money from or lend money to your IRA.
- Any withdrawal from your IRA must be rolled over in 60 days. There are few exceptions to this rule.

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