Are you thinking about converting a traditional IRA to a Roth IRA in 2010 or have you already done so? 2010 may be the best year to convert while giving to UTSA

2010 is ***the*** year in which converting your traditional IRA account(s) to Roth IRA accounts can be done without paying the 10% penalty. If you and your tax advisor believe that this might be a good financial move for you to make, you might be interested in how you can also benefit The University of Texas at San Antonio while making a tax-savvy move at the same time. Here's more information:

Financial advisors and columnists in leading publications like the Wall Street Journal and The New York Times generally suggest it is better to pay taxes later, rather than sooner. However, with new tax laws and the current economic conditions, many retirement planning experts point out that now may be the time to convert traditional IRAs to Roth IRAs, even if it means paying income taxes to do so.

Until now, only those with modified adjusted gross incomes of less than $100,000 were qualified to make a conversion. The good news is that in 2010 the $100,000 income limit on Roth IRAs will disappear. Roth IRAs have many benefits, including tax-free income in retirement, no required minimum distributions, the ability for heirs to enjoy tax-free growth and income, and the possible reduction of estate taxes.

Roth IRAs also offer flexibility. After five years, you can withdraw your contributions at any time without paying taxes or penalties. By paying taxes due on the conversion with funds outside the IRA or by offsetting taxes with charitable gifts, you can convert your traditional IRA to a Roth IRA on a one-to-one basis, regardless of income restrictions on contributions.

However, there are a few disadvantages and caveats. Perhaps the most significant is that the amount of the IRA converted is added to your adjusted gross income and taxed at ordinary income rates. Unless you have itemized deductions sufficient to offset the income, you will have to pay the tax. In addition, depending on your age (under 59½) and the type of contributions included in your traditional IRA, you may have to wait up to five years to access the amount converted to a Roth IRA or incur a 10 percent penalty.

Why convert now?

1. Income tax rates are likely to rise, not fall.

Income tax rates are at their lowest point in many years. The federal deficit is projected to increase over the next decade to $9 trillion from $7.1 trillion. Healthcare reforms may include increasing tax rates on those earning over $250,000. Tax changes under consideration include phasing out or decreasing certain itemized deductions, including charitable deductions.

2. As the economy recovers, your investment can be growing in a tax-free, rather than a tax-deferred, account.

3. Even if you don't currently have an IRA you can create one by rolling over an existing retirement account to an IRA.

You can also set up a non-deductible IRA, regardless of income.

4. For 2010 only, you can choose to pay taxes on the conversion now, or defer paying half until 2011 and half until 2012.

Of course, you would be taking a chance that tax rates will be higher and deductions lower in 2011 and 2012.

5. You still have the flexibility to change your mind.

If Congress changes tax laws or the economy declines, you can reverse your decision until October 15 of the year of the conversion, with no penalty.

Charitable Gifts Can Help Offset Taxes

1. If you have carry-forward charitable tax deductions from previous years, you could use it to offset some of the taxes due on the conversion.

2. Consider making new charitable gifts.

For example:

- A gift of long-term, appreciated securities would provide a tax deduction at full market value, while avoiding capital gains taxes.
- A gift of your home, vacation home, or farm, while retaining lifetime use for you, could also generate a large income tax deduction with no cash outlay.
- A life income agreement, such as a charitable gift annuity, funded with cash or appreciated securities, could provide a tax deduction and replace income from required minimum distributions with lower taxed annuity payments. Younger taxpayers may consider a deferred payment charitable gift annuity.

Remember that with a Roth IRA your investment grows tax free. No minimum distributions are required. Your heirs can enjoy tax-free income, and you may significantly reduce your taxable estate — all while providing support to The University of Texas at Austin.

Not all of the rules can be fully addressed here, and your decision to convert depends on many factors, such as current and projected income, marginal tax rates, and other resources you may have outside of the IRA. It is very important to contact your tax advisor to see what makes sense for you. You can also consult IRS Publication 590 at irs.gov.

Note: Even if your tax advisor does not think that a Roth IRA would make sense for you, a traditional IRA or pre-tax retirement account is still an excellent vehicle for a **philanthropic bequest**. *Unlike your heirs, charities do not pay income taxes, so the full amount can be left as a legacy.* Simply contact your retirement plan provider for a change of beneficiary form.

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Contact the Gift Planning team at UTSA for information about making gifts of retirement assets, securities, or making a gift of your home, a vacation home, a farm or ranch. These assets may also be used to generate life income payments from UTSA to you. You can contact the team at

Email: carolyn.lowery@utsa.edu

Web: http://giving.utsa.edu/giftplanning

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