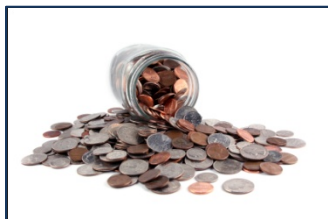


Should You “Undo” your 2010 Roth IRA Rollover?



Background of the Roth IRA

The Roth IRA was created in 1997 as a useful retirement planning tool for individuals to achieve completely untaxed long-term growth in retirement accounts by putting post-tax dollars into a designated Roth IRA account. Additionally, those earning under \$100,000 could choose to rollover a traditional IRA to a Roth IRA and pay the income tax in the year of rollover.

The Rush on 2010 Roth IRA Conversions

Few people took advantage of the Roth rollover option until 2010, when some very unique tax planning opportunities came about. The 2010 changes included the following:

- No income limit for a Roth IRA rollover
- Ability to spread the taxable income from a 2010 rollover into 2011 and 2012
- Ability to undo or “recharacterize” a 2010 Roth IRA rollover at anytime prior to October 17, 2011

These provisions made a Roth IRA available to everyone, allowed individuals to defer the tax into future years, and, for the first time in history, allowed individuals to retroactively change their mind by undoing a taxable transaction in a subsequent year.

Should You Recharacterize Your 2010 Roth Rollover?

Many people took advantage of the 2010 Roth IRA conversion incentives and felt pretty good about their decision for the first half of 2011 as the Dow increased nearly 12% at different points in May and July. However, the American and international stock markets have been on a roller coaster ride since then and many investment accounts have therefore taken unexpected hits in value. As a result, now is the time for anyone who rolled into a Roth IRA in 2010 to consider whether it makes sense to undo that rollover and consider it a “practice swing.”

There are some situations where the decision is easy, especially if the assets in the rollover Roth IRA have decreased significantly in value since the rollover. In short, why would you pay tax on a \$100,000 rollover that is currently worth \$50,000? In this situation, one would likely recharacterize (i.e. “undo”) the Roth rollover prior to October 17, 2011 and presumably do the Roth rollover again in 2011 as long as it is at least 30 days after the recharacterization. This process would presumably save income taxes on \$50,000 of Roth IRA rollover and leave the same assets in the resulting Roth IRA.



There are tradeoffs you must consider in making the decision to recharacterize or not, including the cost and process to change the tax reporting and the one-time incentive in 2010 that allowed you to report income in 2011 and 2012. Therefore, many people are not an open and shut case and we therefore recommend you contact Stephen Bjork (sbjork@komisarbrady.com) Or Adam Smith (asmith@komisarbrady.com) or any of our other tax department professionals if you have any questions about your specific situation.