

# THE ARIZONA REPUBLIC

## Roth IRA Myths

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The major benefit of a Roth IRA conversion is that you pay tax once, but not on the earnings inside the Roth IRA for the rest of your life, your spouse's life, and potentially your children's lives. Yet, many people believe that they should not do a Roth IRA conversion.

### **Myth #1: It costs too much tax to do a Roth IRA conversion.**

If one's modified adjusted gross income is under \$100,000 (whether single or filing married, joint return), one can convert one's traditional IRA, 401(k), 403(b), or other retirement account into a Roth IRA. The amount of money converted is taxable income in that year.

Reality: This taxable income was always taxable income when you pulled it out of your traditional IRA, 401(k), or other retirement account. It was always deferred wages or profit from one's own business. Although temporarily deferred from taxes, you will always pay tax on all distributions from these accounts.

### **Myth #2: The Roth IRA conversion will push me in a much higher tax rate:**

Reality: The Roth IRA conversion does not have to be all or nothing. You can convert all or as little as you want each year.

Example: you are single and have a taxable income of \$78,850 (Note: we will use the 2008 tax rate schedules as

the 2009 ones were not found on the [www.irs.gov](http://www.irs.gov) IRS website). You are at the 25% marginal tax bracket, and the next tax bracket will be a 28% rate for income between \$78,850 and \$164,550; 33% for income between \$164,550 and \$357,700; and 35% above \$357,700.

If one had \$240,000 in a retirement account, one could convert \$80,000/year for 2009, 2010, and 2011. It would push you to the 28% tax rate, a mere 3% extra than your current 25% tax rate.

### **Myth #3: My tax rate will be lower when I retire than now while I'm working.**

Reality: In 2001, President Bush came into office promising a range of income tax cuts. He succeeded in getting a tax cut through Congress, the largest tax cut since 1981. However, these tax cuts are set to expire at the end of 2010 unless Congress acts to extend them. The maximum tax rate will increase to the former 39.6% rate. With our projected \$1 trillion/year of Federal Deficits, taxes can only go up.

### **Myth #4: I've lost 40% of my assets because of the stock & bond market meltdown during the last 18 months and so a Roth IRA conversion doesn't make sense now.**

Reality: If you believe that the market will ever recover, you will pay less tax by doing the Roth IRA conversion today instead of never converting.

Example: Suppose a widowed single retired taxpayer with no taxable income had \$1 million in an IRA or 401(k) during October, 2007 (the peak of the stock market) and it dropped to \$600,000 today. If she converted \$200,000 in 2009 and the other \$400,000 in 2010, the total tax would only be about \$185,145 (partly because any amount converted in 2010 has the election of declaring only half taxable in 2010 and the other half in the 2011 tax year). In contrast, if she did not convert, died in 2012, and her portfolio had recovered to its original \$1,000,000, her kids would owe at least \$368,667.90 of Federal income tax, calculated on the old rates we would return to (the year 2,000 rates). There would be a \$176,477.10 tax savings of doing the Roth IRA conversion.

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