

Traditional IRA to Roth IRA Rollovers

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Prepared for:

Can Funds Be Transferred From a Traditional IRA to a Roth IRA?

Yes. All taxpayers have the option of rolling funds over from traditional qualified plans into a Roth IRA. The conversion income must be recognized in the year the rollover or conversion takes place.

After careful review, you may decide that a Roth IRA is a better retirement savings option for you than a traditional IRA. In this event, if you already have funds in a traditional IRA, you may want to consider moving those funds into a Roth IRA.

Advantages:

- Qualified distributions from a Roth IRA are received free of income tax.
- If non-qualified distributions are taken, the portion of the distribution represented by traditional IRA contributions is not taxable.
- There is no minimum age by which you must begin receiving distributions from a Roth IRA.
- The premature distribution penalty tax does not apply to amounts converted or rolled over from a traditional IRA to a Roth IRA.
- Qualified distributions from a Roth IRA are not included in determining the taxable portion of any Social Security benefits being received.

Disadvantages:

- The amount that is converted or rolled over to the Roth IRA is subject to federal income tax in the year of the conversion or roll over, to the extent that the funds consist of earnings and tax-deductible contributions to the regular IRA.
- In the year of the conversion or roll over, this taxable income can serve to increase the taxable portion of any Social Security benefits being received.
- The premature distribution penalty tax applies to any converted or rolled over amounts distributed from the Roth IRA during the five-year period following the conversion or roll over.

You should seek professional tax advice before converting or rolling over funds from a traditional IRA to a Roth IRA in order to avoid unforeseen and/or negative tax and, possibly, creditor protection consequences.