

TAX TALK
BY JEFFREY D. SKOLNICK, CPA, M.S. TAXATION

TAX SEASON 2010 – LIKE IT OR NOT IT’S HERE

It’s always hard to believe, but just as we finish celebrating the holidays, we need to think about filing tax returns. I have selected some IRA provisions that I feel are worth reviewing which pertain either to the year just ended (2009) or to the coming year (2010).

Roth IRA Conversions

One topic sure to get a lot of attention in the next year will be whether or not to convert your traditional IRA to a Roth IRA. Roth’s are IRAs that provide no current deduction on your income tax return; however neither the principal nor any earnings thereon are taxed when withdrawn. Traditional IRAs provide a current deduction on your income tax return, however for federal purposes are 100% taxable (as are any earnings on the account) when withdrawn. For NJ purposes even a traditional IRA is nondeductible therefore only the earnings portion of an IRA distribution is taxable upon withdrawal.

Individuals are permitted to convert a traditional IRA to a Roth. To convert a traditional IRA to a Roth the taxpayer is required to report the amount of the converted IRA on his/her tax return and pay tax on this amount. The IRA will then grow tax free and the taxpayer will not pay tax on any of the money ever withdrawn from the account. This conversion is permitted provided your modified adjusted gross income was \$100,000 or less in 2009. This income limitation has prohibited many taxpayers that wanted to convert their IRAs from doing so. In 2010 this income restriction on conversions is eliminated and as further incentive to convert, the rules allow any amount converted in 2010 to be reported 50% on the taxpayer’s 2011 tax return and 50% on the taxpayer’s 2012 return. If for example an individual converted a traditional IRA worth \$80,000 to a Roth in 2010 that individual would not have to pick up any income on their 2010 return, but would pick up \$40,000 in 2011 and \$40,000 in 2012.

Whether or not converting a traditional IRA to a Roth and paying the tax makes sense has to be examined on a case by case basis.

Limitations

For both 2009 and 2010 the IRA and Roth IRA limitations are \$5,000 (\$6,000 for those 50 and older). There are certain income phase-out rules if you and/or your spouse (if married) are an active participant in an employer retirement plan. There are also income limitations that apply to Roth IRA contributions. The limit on 401k contributions is \$16,500 for both years (\$22,000 for those 50 and older).

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Standard Mileage Rate

As discussed in a previous article, taxpayers are permitted to deduct either actual automobile expenses or a standard mileage rate. The standard mileage rate for 2010 is generally 50 cents per mile (down from 55 cents per mile in 2009). Keep in mind the mileage must be for business purposes. There are lower rates that are used when calculating charitable, moving or medical expenses.

Conclusion

This article gives a very brief summary of certain aspects of IRAs. I certainly would encourage anyone who feels they may want to convert a traditional IRA to a Roth to contact a tax professional.