

IRA — Certification for the Internal Conversion of a Traditional IRA to a Roth IRA

To: Custodian/Trustee

Name _____ Date: _____
Address _____ Phone _____
City _____ State _____ Zip _____

From: Depositor or Grantor

Name _____ Phone: Home _____
Home Address _____ Phone: Work _____
City _____ State _____ Zip _____ SSN _____
County _____ Date of Birth _____ Plan No. _____

Subject: Election to convert a traditional IRA to a Roth IRA in the amount of \$ _____.

I hereby certify to you (the Roth IRA custodian/trustee) that I am making the following conversion contribution to a Roth IRA. (Check the applicable reason below and complete as indicated). Roth IRA conversion contributions are amounts rolled over, transferred, or considered transferred, from a traditional IRA. A traditional IRA is an IRA (account or annuity) described in section 408(a) or 408(b). This transaction will be reported to the IRS as a distribution from your traditional IRA and a conversion contribution to your Roth IRA.

Conversion of a traditional IRA to a Roth IRA.

I certify that I presently maintain a traditional IRA with you as the IRA custodian/trustee. The plan number or account number for this IRA is _____. I hereby instruct you that I wish to convert this traditional IRA to a Roth IRA to the following extent: entire account or the following amount \$ _____. I also certify that I am not converting any part of a required minimum distribution (i.e. distributions required for the year you attain age 70½ and for each subsequent year). For conversions occurring before January 1, 2010, I also certify that my adjusted gross income for the current tax year is and will be \$100,000 or less and that if married, I will not be filing a separate federal income tax return. (You should read the reverse side for a discussion of the IRS' position on \$100,000 limit.)

Distribution from a traditional IRA for Rollover to a Roth IRA.

I hereby certify that the cash or other property I contributed to the Roth IRA referenced above qualifies as a rollover or conversion contribution pursuant to Internal Revenue Code section 408A and the applicable regulations. I certify that I am making this rollover within 60 days after the day the funds were received which was _____. I also certify that I am not converting any part of a required minimum distribution (i.e. distributions required for the year you attain age 70½ and for each subsequent year). For conversions occurring before January 1, 2010, I also certify that my adjusted gross income for the current tax year is and will be \$100,000 or less and that if married, I will not be filing a separate federal income tax return. (You should read the reverse side for a discussion of the IRS' position on the \$100,000 limit.)

I acknowledge that you have instructed me to consult with my legal or tax advisor because of the complexity and importance of this matter. I have made the above certifications. I expressly assume all responsibility for this conversion instruction. I understand that the tax consequences related to depositing funds in a Roth IRA from a traditional IRA which do not qualify are extremely harsh, as excess contributions result. I understand that for tax purposes, my instruction to convert my traditional IRA into a Roth IRA will be treated as a distribution and will be reported to the IRS.

Signature of Depositor or Grantor _____ Date _____

Acknowledgment of Roth IRA Custodian _____ Date _____

General Discussion of Conversions to a Roth IRA

Who is eligible to do a conversion for years 2010 and subsequent years?

Beginning January 1, 2010, anyone having a traditional IRA may convert funds from their traditional IRA to a Roth IRA.

Do I need to execute a new Roth IRA plan agreement to receive the conversion contribution?

No. You could establish a new Roth IRA plan agreement if you wanted, but this is not required. If you already have an existing Roth IRA, you could add the conversion funds to your existing Roth IRA.

Must I or should I establish a Roth Conversion IRA?

No. A conversion contribution may be made to the same Roth IRA to which regular annual Roth IRA contributions have been or will be made. In 1998 when Roth IRAs were first available, the IRS initially recommended that an individual set up a separate Roth Conversion IRA for a conversion contribution. However, Congress enacted a law change in 1998 and the IRS quit recommending the establishment of a separate Roth Conversion IRA. You will maintain the proper records for the distribution ordering rules by completing the Form 8606 (Nondeductible Contributions).

How much may I convert from my traditional IRA?

There is no dollar limit on the amount which you may convert from your traditional IRA to a Roth IRA.

You must decide whether or not it is in your best interest to incur taxes on the conversion amount now, in order to receive the benefit of tax-free earnings when the funds are converted to the Roth IRA.

Note that you are not required to convert the total amount of your traditional IRA in one year. It may be possible, depending on your income, to lessen the tax burden by converting only a portion of your traditional IRA balance over a period of a years.

Example: If you have \$50,000 in a traditional IRA, you may wish to convert \$10,000 a year for a period of 5 years, or \$5,000 a year for a period of 10 years.

When may I do a conversion during the year?

You may do it at any time. A conversion can be done for a given tax year as soon as January 1 of such year. For example, a person could convert his or her traditional IRA on January 1, 2010, for 2010. The last day to convert funds for a given year is December 31. However, see the later discussion of a failed conversion.

How do I convert my traditional IRA?

You can convert amounts from your traditional IRA to a Roth IRA by using any of the following three methods. The first method is the standard rollover. You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days of the distribution. The second method is a trustee-to-trustee transfer. If permissible, you may direct the custodian/trustee of your traditional IRA to transfer an amount from the traditional IRA to the custodian/trustee of your Roth IRA. The third method is an internal movement. You direct the custodian/trustee of your traditional IRA to transfer an amount from your traditional IRA to your Roth IRA.

Whatever conversion method is used, the custodian/ trustee of the traditional IRA will prepare a Form 1099-R to report the distribution, and the custodian/trustee of the Roth IRA will prepare a 5498 to report the conversion contribution.

How do I convert my SEP-IRA or SIMPLE-IRA?

You would follow the same procedures which apply to converting funds from a traditional IRA. However, in the case of a SIMPLE IRA, you may convert such funds only after a 2-year period has expired since you first participated in your employer's SIMPLE IRA plan.

What income tax will I owe because of a conversion made in 2010 or subsequent years?

As discussed above, you will still owe the applicable tax on the distribution from the traditional IRA. However, there is a special rule for conversions made in 2010.

If you make a conversion in 2010, you will be able to elect to include 50% of the conversion amount in income for income tax purposes in 2011, and the other 50% in 2012. No taxes will be owing in 2010 for conversions made in 2010. You do not have to use this option. If you desire, you may include all of a 2010 conversion amount in your income for 2010.

For conversions made after 2010, you will have to include the total conversion amount in your income.

If the distribution includes any basis (i.e. nondeductible contributions), you do not include such after-tax amounts in your gross income.

Caveat: It must be noted that it is possible a new tax law could be enacted prior to 2010, or after 2010, changing this rule.

Will I owe the 10% additional tax for my conversion if I am under the age of 59½?

No.

Might an income acceleration rule apply to certain 2010-2011 distributions?

Yes. In order to discourage an individual from making a conversion and then taking a distribution soon thereafter, the law has been written to include an income acceleration rule. The individual will use the standard Roth IRA ordering distribution rules. If an individual takes a NONQUALIFIED distribution from his or her Roth IRA during 2010-2011 which is comprised of the taxable portion of a conversion, then he or she will need to include that portion in income earlier than it would have been under the 2-year pro-rata rule. The income deferred to 2012 will be accelerated first and then the income deferred to 2011 will be accelerated next.

In what Roth IRA distribution situations will the income acceleration rule not apply?

An individual taking a qualified Roth IRA distribution will not be subject to the income acceleration rule. Also, the income acceleration will not apply to the extent that the individual withdraws "basis" due to annual contributions.

What happens if I make a Roth conversion in 2010 and then die in 2010 or 2011?

If you elected to use the 2-year rule in 2010 and then die during 2010 or 2011, any amount which has not yet been included in income must generally be included in your income for the year of your death. This income will need to be reported on your final income tax return.

The law appears to be unsettled whether or not your executor may un-do the conversion by recharacterizing. The IRS generally adopts the position that the making of a conversion and recharacterization are personal tax rights and end when the individual dies.

Does a special rule apply if I have designated my spouse as my Roth IRA beneficiary and he or she is my sole beneficiary?

Yes. A spouse beneficiary who is the sole beneficiary can elect to continue to ratably include the amounts in income over the remaining years in the 2-year period.

What rules apply if I simply decide I wish I had not done the conversion and what are the time deadlines which apply?

You are able to recharacterize a conversion contribution as long as you do so before October 15 of the following year. For example, if you converted funds to a Roth IRA in 2010, then you have until October 15, 2011, to undo this conversion by recharacterizing it. You will need to complete special administrative forms.