

ED SLOTT'S IRAADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Deadline to Recharacterize 2011 Roth Conversions is Near - October 15, 2012

October 15, 2012 marks the last day on which clients with 2011 Roth IRA conversions can reverse the conversion and get back any taxes paid as a result. The more formal name for this transaction is a Roth recharacterization, but for most clients, it's simply the way they were promised that they could undo their Roth IRA conversion, and the resulting tax consequences.

The Roth recharacterization deadline is nothing new, but like a modern remake of a classic film, this latest version has the same overall message, with a slightly different twist. Helping clients and prospects to understand the subtle wrinkles that make this year's Roth recharacterization deadline unique can help advisors solidify themselves as experts who maintain a solid handle on the ever-changing economy, stock market and tax laws.

What's Different About 2011 Roth Recharacterizations?

So what's different about this year's recharacterization deadline? Well, one big factor in determining whether

or not clients should keep their Roth conversions intact or recharacterize is the performance of their investments within the Roth IRA after conversion. If the value of the Roth IRA conversion has declined substantially, it often makes sense to recharacterize the conversion to recoup the tax paid on value that no longer exists, perhaps with an eye on reconverting in the future. Partial recharacterizations can also be done.

This year, for the first time since the floodgates opened on Roth conversions in 2010 (when the Roth conversion restrictions were permanently repealed), the majority of Roth IRAs being evaluated for recharacterization *should* be up in value.

Since the start of 2011 through the first two-thirds of 2012 (the end of August), the S&P 500 index is up roughly 12%. In contrast, the S&P 500 was down roughly 6.5% from January 2010 through the end of August 2011 (and was still down about 2.5% on the October 15, 2011 recharacterization deadline for 2010 conversions). For the most part, the market has cooperated since 2011, so

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