Rosen Seymour Shapss Martin & Company LLP
Certified Public Accountants & Profitability Consultants

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BENEFITS BLAST

Greetings!

Welcome to the Employee Benefits & Executive Compensation Service Group's Benefits Blast! (a publication of Rosen Seymour Shapss Martin & Company LLP). Here is where you will receive periodic updates on all your employee benefits and executive compensation needs.

Employee benefits programs and executive compensation issues are more complex than ever - tax laws and other statutes are continually changing, and increasingly employers must consider international implications. These issues also are critical to maintaining continuity in your workplace and retaining key employees.

We welcome your questions or comments about the topics discussed or related ones. Please feel free to contact us at 212-303-1806 or e-mail us at aneumark@rssmcpa.com and let us know how we can be of assistance.

Sincerely,

Avery E. Neumark, CPA, JD
Partner-in-Charge of Employee Benefits & Executive Compensation

Final Reminder - Plan Amendments and Compliance

Clients who are plan sponsors of preapproved defined contribution plans (Master and Prototype and Volume Submitter Plans) will face non-amender penalties if they fail

In This Issue

2010 "MAY" be the right year to convert your IRAs to ROTH IRAs

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to restate their plan onto an EGTRRA plan document by the April 30, 2010 deadline. Therefore, it is essential to ensure that all preapproved defined contribution plans are timely restated. Most clients have received documents to adopt from their third party administrators in order to conform with the requirements. If you have any questions regarding plan compliance, please contact us or your third party administrator as soon as possible.

2010 "MAY" be the right year to convert traditional IRAs to ROTH IRAs

Prior to the beginning of 2010 your adjusted gross income could not exceed certain limits in order for you to be eligible to convert your IRAs to ROTH IRAs. Beginning in 2010, the income limits are eliminated. No matter what your adjusted gross income is, you will be able to convert eligible retirement funds to ROTH IRAs. Additionally, for any conversions made in 2010 **and 2010 only**, you can elect to report the income from the conversion and recognize the distribution on your 2010 return or to defer recognition and report 50% of the distribution on your 2011 return and 50% on your 2012 tax return. **But is a ROTH IRA conversion right for you?** Here are some points to consider:

- The decision to convert basically is a decision to pay the tax "upfront". After paying the initial tax, both the appreciation in your ROTH IRA and distributions from it will be tax free, as long as you maintain the ROTH IRA for 5 years and you are at least age 59 1/2 at the time of the distribution. This may be especially beneficial to younger workers with a longer time span before retirement, people who expect to be in the same or higher tax brackets after retiring, or people who wish to leave their retirement assets to their heirs.

- There are no required annual minimum distributions for ROTH IRAs after age 70 ½ or at any age during the life of the IRA owner.

- While the income limits are waived for conversions, they are **NOT** waived for annual contributions to the ROTH IRA. Therefore, after you have made the initial conversion, you **may** not be able to contribute to your ROTH IRA **directly**. However, by contributing first to a non deductible IRA and then converting to a ROTH IRA, you can circumvent the income limitations.

- If you own non deductible IRAs, they can be converted to ROTH IRAs and your basis in the IRAs (i.e., the original amounts contributed) will be converted tax free.

- The ability to convert to a ROTH IRA is not limited to IRAs. Balances in old 401(k) or other qualified plans from **previous** employers may also be eligible.

- If at all possible, taxes on the conversion should be paid out of non IRA funds so as to maximize the amount being converted and to avoid possible penalties.

- In most cases, the amount converted cannot be withdrawn for five years after the conversion without incurring a penalty.

- Your decision regarding conversions can be reversed. If you convert some or all of your traditional IRAs to ROTH IRAs, and your decision turns out to be undesirable because of unforeseen circumstances (e.g. a downturn in the value of your portfolio), you can reconvert back (in effect, nullifying the original conversion). If you converted 401(k) or other retirement plan assets the conversion can be recharacterized as a conversion to a traditional IRA. The recharacterization or reconversion can be made by October 17, 2011. The deadline also applies if you file your tax return on time. In certain cases, amended returns would have to be filed.

- You can establish and transfer funds to more than one ROTH IRA and later reconvert none, one or more of them depending on your circumstances.

- It may be desirable to preserve a previously established ROTH IRA because the origination date is important for withdrawal purposes (ie. 5 year holding period).

- ROTH IRAs are subject to estate taxes. However, distributions from ROTH IRAs used to pay estate taxes would be income tax free (if the minimum holding period was satisfied), while distributions from traditional IRAs would not.

- Your beneficiaries can take withdrawals from an **inherited** ROTH IRA tax free, even if both the beneficiary and the decedent are under age 59 ½, as long as the five year holding period is satisfied.

The decision to convert to a ROTH IRA involves many issues, and changing economic conditions. If you wish to explore the opportunities a ROTH IRA conversion may provide, we at RSSM are here to assist you.

EMPLOYEE BENEFITS & EXECUTIVE COMPENSATION SERVICES GROUP
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