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## Take tax control of your IRA conversion

By [Kay Bell](#) • Bankrate.com

Every tax-filing season, individual retirement accounts get extra attention. In most cases, account holders simply make sure they contribute to the plans by the deadline, which for the 2005 tax year is April 17, 2006 -- the same day that tax returns are due.

Some people, however, also view tax season as a good time to fine-tune their retirement savings. In some cases, owners of traditional IRAs decide it's time to convert those savings to Roth accounts.

But be careful. While a Roth IRA has definite advantages for many people, it's [not necessarily right](#) for everyone.

And even if the move does make sense for you, you'll pay a price. There are ways, however, to manage the financial bite and ensure your IRA meets your eventual retirement needs.

### The price of change

If you started an IRA as soon as the option became available 32 years ago for what we now call a traditional account, you'd likely have a nice nest egg. The one downside: When you start taking out money, much of it will be taxed.

That's not the case with a Roth. Once you've held the account for five years, you won't owe the IRS anything when you withdraw the money at retirement.

Converting a traditional IRA to a Roth gives you that future tax-free benefit, but at an immediate tax cost. You'll have to pay taxes on contributions that you previously deducted, as well as on the account's earnings.

Conversion also could push you into a higher tax bracket, especially if you've accumulated sizeable earnings over the years. True, only the portion of your income that falls into that new bracket will be [taxed at the higher rate](#), but it's still an added bonus for the IRS at your expense.

Then you must consider exactly how to cover the conversion taxes. Some account holders end up using money from the traditional account to meet this obligation. Not a good idea, say experts, since that reduces, sometimes dramatically, your retirement holdings.

Plus, if you're younger than 59½, when you take out the cash to pay the IRS you'll also face a 10 percent early-distribution penalty.

Upon facing such tax considerations, some traditional IRA holders decide to forgo conversion. But that might not be the only, or best, option.

### Gradual conversion

It is a fact that you can't escape the tax pain of transferring to a Roth account. You can, however, control it.

Simply move your traditional IRA money to a Roth gradually through partial conversions for several years.

"You can partially convert \$100, \$100,000 or whatever," says Jeff Bogue, certified financial planner and principal of [Bogue Asset Management](#), LLC based in Wells, Maine.

Even better, you don't have to transfer the money from one account to another on any specific timetable. That way, you have some control over your tax bill.

"You can stage the transfer over a period of time," says Bill Rucci, CPA and partner in the Boston-based accounting firm [Rucci, Bardaro and Barrett](#). "That's where the graduated tax brackets come into play. If you do it all in one year, you might be pushed into a higher tax bracket and it wouldn't be worth it. Stage the rollovers in such a way that you don't face higher taxes."