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Converting to a Roth IRA with Taxes Paid from Corpus of the Traditional IRA

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Abstract

Congress eliminated the income limit required for converting a Traditional Individual Retirement Account (IRA) to a Roth IRA in 2010. The conversion must be recognized as income for tax purposes in the year of conversion. The converter may choose to pay taxes from other sources or to pay from the corpus of the Traditional IRA. A converter younger than 59½ years of age at conversion must pay an additional tax penalty. This study examines the conversion process and the tax consequences of converting a Traditional IRA to a Roth IRA and discusses the complexity of the decision to convert when taxes are paid from the corpus of the Traditional IRA. Conversion under this circumstance is likely not an attractive alternative.

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