

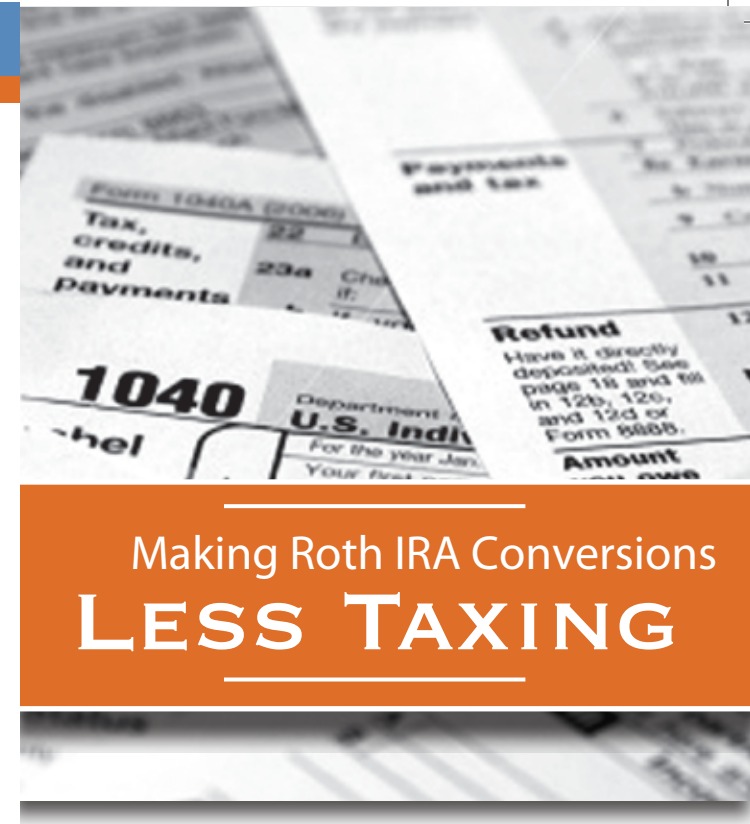
property for their lives. The arrangement, known as a “qualified life estate,” generates a charitable deduction that will be large enough to offset the conversion tax that otherwise would have been due when they file their 2010 tax return.

**The Smiths** have been considering establishing a charitable remainder trust. Their financial advisor points out that if they fund the remainder trust this year they will largely eliminate income taxes that otherwise would be due after converting a traditional IRA to a Roth IRA. To maximize their tax savings, they decide to fund the trust with appreciated, low-yielding securities, thereby bypassing capital gains tax at the time the trust is funded. They also select a relatively low payout that results in increasing their charitable deduction. In this way, they will offset as much of the conversion tax as possible while allowing more room for the trust to grow over time. They decide to leave the tax-advantaged Roth IRA to their children so they will receive the funds free of income tax rather than having to pay the tax that would have been owed on amounts they receive from a traditional IRA.

## Check with advisors

These are just a few of the situations in which charitable gifts may be made in ways to make the conversion of a traditional IRA to a Roth IRA less taxing. While the basic concept is relatively simple, the details can be more complex and vary from person to person.

Those considering a Roth conversion should consult with their tax and financial advisors concerning the use of various deductions and filing options to reduce tax liability from a Roth conversion. We are happy to assist you and your advisors in the charitable aspects of your plans.



The purpose of this publication is to provide general gift, estate, and financial planning information. It is not intended as legal, accounting, or other professional advice. For assistance in planning charitable gifts with tax and other financial implications, the services of appropriate advisors should be obtained. Consult an attorney for advice if your plans require revision of a will or other legal document. Tax deductions vary based on applicable federal discount rates, which can change on a monthly basis. Some opportunities may not be available in all states. ©MMX RFS&CO, Inc. All Rights Reserved. 8333-10



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**L**ike a traditional IRA, a Roth IRA allows funds to be invested and reinvested on a tax-free basis; however, unlike a traditional IRA, the withdrawals may also be made on a tax-free basis.

## New opportunity

Beginning in 2010, all taxpayers can now contribute to a Roth IRA and can also choose to convert a traditional IRA to a Roth. According to retirement plan specialists, some 13 million individuals may be in a position to benefit from a Roth conversion. The primary advantages of this opportunity include:

- Continued tax-free growth of investments, plus tax-free withdrawals,
- No minimum required distribution,
- The ability for heirs to inherit your Roth IRA and receive tax-free income over time.

A disadvantage of making a Roth IRA conversion is that there will be income taxes due on any pre-tax contributions and growth in assets in the account prior to the conversion. These “conversion taxes” are

payable in 2010, or may be divided equally between 2011 and 2012. There are a number of factors that an individual should consider and discuss with their advisors if they are contemplating a conversion.

Tax credits, losses, charitable gifts, or “carryforwards” can serve to reduce or eliminate the tax due on a Roth conversion. Deductions can offset the amount of a traditional IRA being converted to a Roth account on a dollar-for-dollar basis up to the maximum allowed for income tax purposes.

## Charitable gifts offset taxes

Deductions for charitable gifts can be a particularly flexible tool to offset taxes that would otherwise be due. Let’s examine a number of options:

**John**, a successful 45-year-old professional, has a traditional IRA he has been funding over his working career. He has considered converting this IRA to a Roth IRA but is concerned about conversion taxes. The account currently is valued at just under \$25,000. John also has been considering a five-year charitable commitment totaling \$25,000. Instead of making his gift over five years as planned, he decides instead to fund the entire gift in 2010. By doing so, he is able to completely offset the taxes associated with his Roth IRA conversion. To maximize

his tax savings, John decides that instead of using cash to make his gift, he will give stock that is still worth 50% more than he paid for it. He thus makes a special gift, eliminates tax on his Roth IRA conversion, and bypasses capital gains tax that would have otherwise been due if he had sold the stock.

**Cindy** has given very generously over the years and has \$100,000 in “carryforwards” for charitable deductions that she has been unable to use in the past due to limits on deductions. After talking to her advisors she decides to make a Roth IRA conversion and use the charitable deduction carryforwards to offset the taxable income from the conversion. Not only will she owe no tax on the conversion, she will also no longer have the carryforwards that have been impeding her ability to make additional tax-deductible contributions.

**Mr. & Mrs. Davis** have a traditional IRA they would like to convert to a Roth IRA. They have also planned to make a large bequest to a favorite charity. In addition to their main residence, they own a lake house worth more than the balance in the IRA. Their advisors suggest that in lieu of a bequest, they should deed the remainder interest in the lake house to the charity while they retain the full use of the