

2005 Contribution Deadline!

Remember that the deadline for making your 2005 contribution is April 17th. Be sure that your contribution is postmarked by that date. The allowable 2005 contribution limits are \$4,000 or if you are over the age of 50 a total of \$4,500. The limits for your 2006 contributions are \$4,000 or \$5,000 if you are over the age of 50. Put your money to work as soon as possible. ❖

Converting to a Roth

Can I convert my Traditional IRA?

Some investors have asked whether they can convert their Traditional IRA to a Roth and whether it is a good idea. The answer to the first question is maybe. If you are filing singly or jointly and your Adjusted Gross Income (AGI) for the year in which you convert is \$100,000 or less then you may convert your Traditional IRA to a Roth. However, if you are married but filing separate tax returns, you may not convert your Traditional IRA.

The second question is more difficult to answer. The advantage of conversion is that future distributions may be tax-free. However when you convert your Traditional IRA to a Roth you are required to include the entire amount of your Traditional IRA in your taxable income. In addition, as your AGI rises, you may not be allowed to make contributions to your Roth. If your AGI is over \$160,000 and you file jointly, you may not make a Roth contribution (\$110,000 if filing singly and \$10,000 if married but filing separately). A general statement about a conversion is that the longer the time between conversion and your distributions (i.e. retirement), the more likely a conversion would be advantageous. This is due to the effect of paying tax on a smaller balance early in the life of your account and having

a longer time for the account to grow tax-free. Your situation should be evaluated separately and you are advised to seek the consul of your tax attorney or accountant.

Once you decide to make the conversion, contact one of our Retirement Specialists to assist you with establishing your Roth account and making the conversion. ❖

Cash Flow in Illiquid Assets

One of the considerations in your asset selection and investment opportunities should be the need for and the availability of cash. If you are many years from retirement and have no need (or requirement) for distributions, then assets that do not generate cash flow and are illiquid (meaning hard to quickly convert into cash either by sale or redemption) may produce excellent returns and thus be good additions to your IRA portfolio. However, if your investment produces no cash flow, but has expenses requiring payment, you will need to be sure that your account has enough cash from other investments or that your allowed contributions are sufficient to pay those expenses.

As you approach retirement, you will want to review your portfolio to ensure that there will be enough cash to make distributions to you. This means that you may wish to consider converting illiquid assets into more liquid ones on a regular basis as you approach the time when you need to make distributions. It can be very difficult to discover that a distribution is required and your only option is to re-register illiquid assets from the IRA to your name. You will end up with taxable income and yet may not be able to quickly convert it into cash to pay the taxes. You should talk to your investment advisor regularly to see how your portfolio should be adjusted as you move towards retirement and make sure that you have the right balance of cash flow. ❖

COMING IN FUTURE ISSUES

- 1 Transferring an account, what is the cost?
- 2 Can I? Some do's and don't in an IRA.
- 3 The Self-Directed IRA

Interesting Internet Stuff ...

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- 🌐 Article on the 12-Month rule for rollovers.
(www.complianceheadquarters.com/IRA/IRA_Articles/5_17_05.html)
- 🌐 Author discusses unusual assets held in IRA Accounts.
(feeds.smartmoney.com/smartmoney/taxmatters?m=12)
- 🌐 Interesting discussion of LLC use in an IRA.
(advisor.morningstar.com/articles/doc.asp?docId=3506)