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A tide of Roth conversions sweeps through the advisory business this month (<http://www.riabiz.com/a/4625182/a-tide-of-roth-conversions-sweeps-through-the-advisory-business-this-month>)



Tawn Jacobs: It's so cool to do these Roth conversions where people don't owe anything at all.

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The Bush tax-cut compromise is changing calculations, again

Wednesday 12.8.10 by Lisa Shidler (<http://www.riabiz.com/author/lisa-shidler>)

◆ John Gjertsen (<http://www.riabiz.com/t/4728001>) | Tawn Jacobs (<http://www.riabiz.com/t/4715001>) | Kacy Gott (<http://www.riabiz.com/t/4727001>) | Aspiriant (<http://www.riabiz.com/t/2016008>) | Albion Financial Group (<http://www.riabiz.com/t/4726001>) | D.L. Blain & Co. (<http://www.riabiz.com/t/4718002>) | Devin Pope (<http://www.riabiz.com/t/4738001>) | Savant Capital Management (<http://www.riabiz.com/t/4737001>)

Elizabeth's note: As many advisors have already discovered, completing a Roth conversion is like putting a square peg in a very important square hole. It can also open the door to a discussion about managing more of a client's assets — even held-away assets. For more on that topic, see Nearly half of advisors now charge clients to manage held-away assets (<http://www.riabiz.com/a/128001>).

December and the Roth conversion confusion out of Washington, D.C. have taken Tawn Jacobs' healthy eat habits down a couple of notches. Late nights in the office mean extra coffee in the morning. Then, in the afternoon, comes leftover Halloween candy: Tootsie Roll pops, to be exact.

"In fact, I was just about to unwrap one right now," she said at about 4 p.m. yesterday.

Jacobs, an advisor and CPA with Savant Capital Management in Rockford, Ill., is not alone. Advisors are working overtime this month to convert clients' Individual Retirement Accounts to Roth IRAs by Dec. 31 — a task that's been made much trickier by Washington's changing tune on taxes and the last-minute compromise (still not entirely certain) to extend the Bush tax cuts for two years.

"I know I'm working more hours trying to keep up with Congress," said Kacy Gott, chief planning officer for California-based Aspiriant. "I'm almost going to a point now where I'm putting a time stamp (on communications)."

Five-fold jump

Custodians are reporting that the number of conversions already is up four or five-fold this year over last year. Fidelity Investments had 135,000 Roth conversions to-date through the end of the October, according to Kevin Walsh, vice president of retirement products. That's up four times from conversions a year ago. Conversions at Schwab are up 535% through November this year compared to a year ago, said Joseph Vietri, senior vice president of advisor services trading and operations for Schwab.



Commonwealth has already completed about 3,600 conversions so far this year — five times more Roth conversions this year than it did in the same time period in 2009, said Scott Schutte, vice president of financial planning and risk management for Waltham, Mass.-based Commonwealth Financial Network.

Still, there are many clients who have procrastinated, and others for whom the question of whether tax rates will be higher in the next two years has a big bearing on whether or how much to convert. With the tax compromise reached on Tuesday, some clients who were on the fence are likely to slip to the conversion side or decide to convert more. Some clients that would have been caught by the AMT had they converted will be helped by the AMT patch that's likely to be part of the final compromise.



Joseph Vietri: Conversions for Schwab up 535% through November this year compared to a year ago.

Plenty of last-minute work for advisors.

This was the first year that Congress took out the income limits and is allowing taxpayers whose modified gross income is more than \$100,000 to convert their IRA to a Roth. In the past, many advisors' affluent clients made too much money to even consider a Roth conversion. In addition, clients who convert their IRAs by Dec. 31 have the advantage of being able to split the tax bill between their 2011 and 2012 tax returns. If clients wait until next year to convert to a Roth, they won't be able to spread out the tax bill over two years.

In almost every case, said Gott, the power of the conversion is so strong that clients should seize the opportunity — and now that the tax rates aren't going to increase on the wealthy in the next two years, there's no reason not to spread the tax bill out.

Advisors said it's no surprise that many clients haven't yet done so, with just 22 days to go before the deadline.

"Even if they've got the money, many clients struggle with the idea of having to send a check to the government to pay for the taxes on the conversion," said Devin B. Pope, advisor with Salt Lake City RIA Albion Financial Group.

Because the issue is a complicated one, advisors must spend time analyzing each client and deciding which ones are the best candidates. See: [Look at the benefits, but beware the dangers, of Roth conversions](http://www.riabiz.com/a/73109) (<http://www.riabiz.com/a/73109>)

"We want to look carefully and we've been here on weekends and late nights because of the deadline," said Jacobs. Savant manages \$1.9 billion in assets. Advisors can use online calculators and segment clients to find clients who may benefit the most from a conversion, Walsh said.

Clients who don't plan on taking distributions from their accounts for 10 years or longer, those who have the ability to use non-retirement assets to pay taxes, and clients who desire taxable and non-taxable accounts in retirement are the ones who may benefit most from a conversion.

Final month is critical

RIABiz (1) “It’s so cool to do these Roth conversions where people don’t owe anything at all,” Jacobs said. “We strongly believe advisors should be talking about this to clients to enhance conversations and it built their value proposition.”

Advisors who completed conversions this year for clients were surprised to discover that a number of clients converted at a tax rate of 0% because of business losses this year.

For example, a client who lost his job and has mortgage interest, itemized deductions but a negative income \$50,000 could complete a Roth conversion with zero taxes.

“It’s so cool to do these Roth conversions where people don’t owe anything at all,” Jacobs said.

Once advisors have decided to complete the conversion for their clients, they don’t have to decide until next spring if the client’s going to pay the tax bill in one year or two years, though a client who is paying estimated taxes this year would want to decide sooner.

Gott said many of his clients want to convert enough to take them up to the top of their marginal tax rates, but not more.

AMT factor

Before the AMT patch was approved as part of the tax compromise, Jacobs had discovered that if some client paid the tax over two years, it would push them into the AMT. Now, that the patch is slated to be approved as part of the tax compromise legislation, she believes these clients can pay the tax in two years without getting pushed into the AMT.

And, if clients get buyer’s remorse on the Roth conversion next year, especially if their accounts drop, advisors remind them that they can change their minds and do a recharacterization, or a do-over next year.

“In some cases, we’re erring on the side of making too much of a conversion just because we know we can undo them if we need to,” said John Gjertsen, with D.L. Blain & Co. LLC, whose firm manages about \$56 million in assets.

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