
Tax filing reminder

- August 2 – Deadline for filing 2009 retirement or employee benefit returns (5500 series) for plans on a calendar year. (Normal deadline is July 31, but since that day is a Saturday, the deadline moves to the next business day, August 2.)

New rules could let you convert to a Roth IRA

For the first time ever, high-income taxpayers are eligible to convert a traditional IRA to a Roth IRA. Prior to 2010, you could not convert to a Roth in a year in which your modified adjusted gross income exceeded \$100,000. But this limit was removed by a 2006 tax law change that took effect January 1, 2010. So the question of the year is, should you do a conversion?

First, you must understand the critical differences between the two IRAs. With a traditional IRA, contributions may be partially or wholly tax-deductible, but distributions are generally taxable at ordinary income rates. In contrast, contributions to a Roth IRA are never tax-deductible, but qualified distributions from a Roth in existence at least five years are completely exempt from tax. Qualified distributions are those made after age 59½, due to death or disability, or used for first-time homebuyer expenses (lifetime limit of \$10,000). Also, unlike a traditional IRA, mandatory distributions after age 70½ aren't required for a Roth.

Thus, by converting to a Roth, you pay an up-front tax on the current value of IRA assets in exchange for future tax-free withdrawals. For a conversion occurring in 2010, you can choose to split the taxable income evenly over the following two years, 2011 and 2012.

In analyzing whether you should convert or not, consider the following points:

- If you have to pay all or part of the conversion tax with funds in your traditional IRA, the benefit of the conversion is diluted. The account can grow even larger if you have other resources to pay the required tax.
- Both current and future income tax rates can affect your decision. For instance, if you're now in a high tax bracket but expect to be in a much lower bracket in retirement, you may be less inclined to convert from a traditional IRA. Conversely, the prospect of rising tax rates generally favor a Roth conversion. Also consider state income tax implications.
- Spreading out the tax liability for a 2010 conversion over the next two years may not be the right choice in your situation.
- Converting to a Roth could trigger alternative minimum tax (AMT) liability.
- Be aware that you don't have to convert the entire balance in an IRA or all your IRAs. Partial conversions are permitted. Finally, you have the ability to "recharacterize" a Roth back into a traditional IRA if it suits your needs.

Call me if you would like to discuss the suitability of a Roth conversion in your personal situation.

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Are all your business eggs in one basket?

Many small business owners share one problem, especially in their early days. It's being over-reliant on a single customer or supplier for much of their business. If you're in that position, your business is operating with higher risk. Just as with investments, you don't want all your eggs in one basket. Your goal should be a well-diversified portfolio of customers and suppliers.

That's in an ideal world. In the real world you may have to live with the situation, at least short-term. But there are steps you can take to understand your risk and, over time, to change it.

- **Measure the problem.** Work with your managers and accountant to quantify how your sales break out by customer. You only need to do this for the top five or ten customers to see whether you have an over-reliance problem. If you're a manufacturer or retailer, take a similar look at your principal suppliers. Quantify how dependent you are on the top few.
- **Understand the risks.** List the factors that could jeopardize your business with your chief customer or supplier. These will vary with your specific circumstances. They might include a natural disaster that interrupts your customer's business or that prevents you from shipping or receiving goods. It could be a change in the marketplace or a new technology that cuts demand for your product. It could be actions by your competitors. It might even be problems in your own operation, such as a drop in quality, delays in shipping, or poor inventory control. The list may be daunting, but until you understand the risks, you can't develop solutions.
- **Look for ways to minimize your risks.** Brainstorm with your managers on long-term steps to reduce each risk. It might be to enter new markets or to tweak your product design. Think through contingency plans to address possible disasters or find alternative suppliers. Discuss how you would respond to changes in the marketplace. Try to set measurable goals for change and clearly assign responsibility.

For assistance with this issue or with any of your business concerns, give me a call.

Summer's here! Put tax saving on your agenda

Summer is the time for fun – vacations, backyard barbecues, and tax savings. Yes, tax savings. Put tax planning on your summer agenda, and you'll end up with more of your hard-earned dollars in your own pocket come 2010 tax filing time.

The tax law offers many opportunities for reducing your taxes – if you know about these options and put them in place early enough in the year to benefit from them. Are you managing your income to save credits and deductions to which you're entitled? If you're facing college expenses for someone in your family, are you doing the necessary planning to maximize available tax breaks? Have you analyzed your investments (including those in your retirement plan) to benefit from tax savings? If you're in business, tax planning at midyear is even more vital.

Every year brings new tax rules. To put new opportunities to work for you, give us a call to schedule your summer tax-cutting review.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

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References, Citations, and Suggested Additional Readings for Material in the July 2010 Monthly Newsletter

I thought you would appreciate having references, citations, and additional reading sources on topics in each issue of the *Monthly Newsletter*.

- Article: “New rules could let you convert to a Roth IRA”
- *RIA Weekly Alert*, November 25, 2009; page 571.
 - *BusinessWeek*, November 2, 2009; page 69.
 - *Kiplinger’s Retirement Report*, March 2010; page 8.