



# Wisconsin Taxpayers May Now Convert to Roth IRAs Without State Penalties

It has been an uncertain couple of months for taxpayers who wanted to convert traditional IRAs to Roth IRAs based on a recent federal law change that expanded the ability to make such conversions. The uncertainty arose because Wisconsin had not modified its law to adopt the federal change. Thus, taxpayers who did convert traditional IRAs to Roth IRAs would have been hit with early distribution penalties and excess contribution penalties.

These taxpayers now have certainty. On March 15, Wisconsin adopted the federal law change regarding conversions of traditional IRAs to Roth IRAs (as well as federal pension and IRA contribution limits for 2011). Wisconsin taxpayers may now convert traditional IRAs to Roth IRAs regardless of their adjusted gross income and without incurring early distribution penalties and excess contribution penalties.

## Advantages to Roth IRAs

Roth IRAs have several tax advantages. Qualified distributions are not taxed and minimum distributions are not required. Also, distributions will not increase the tax owed on social security benefits nor will they affect adjusted gross income-based itemized deductions. Further, Roth IRAs may keep you in a lower tax bracket.

While the converted amounts are subject to federal income tax and Wisconsin income tax, any appreciation in account value after the conversion goes untaxed. This can provide significant savings if, for example, you expect tax rates to go up or the value of your account to increase substantially. Also, as an inducement to act soon, taxpayers who convert in 2010 can wait to pay the required federal income tax and Wisconsin income tax until 2011 and 2012.

Any of Reinhart's State and Local Tax attorneys can help evaluate the effect of these and other factors on your situation.

## What This Means to You

This change unveils opportunities for taxpayers with high adjusted gross income

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levels. Moreover, it reminds all taxpayers of the opportunity for conversion. The unique economic climate may make these conversions more valuable than ever; let us help you consider the savings potential.

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