

## Conversion of Traditional IRA to ROTH

### Example # 1 - Full Conversion

Harold has two IRA accounts. One is a contributory IRA and the other is a SIMPLE IRA and the total value of both is \$22,000. Since inception, Harold has contributed \$9,000 as non-deductible contributions. He now decides to convert both IRAs to ROTH accounts. Because all his accounts are being closed, the \$9,000 non-deductible amount is considered to be basis and is distributed tax free.

### Example # 2 – Partial Conversion

John has three IRA accounts including a contributory IRA to which he has contributed \$14,000 after tax, a SIMPLE IRA, and a rollover IRA. The contributory IRA balance is \$29,000; the SIMPLE IRA balance is \$23,000, and the rollover account balance is \$60,000. Only the contributory IRA and the SIMPLE IRA are being converted to ROTH accounts. All three accounts must be taken into consideration in determining the taxable portion of the distribution:

$$\begin{aligned} & \$14,000 / (\$29,000 + \$23,000 + \$60,000) = 0.1250 \\ & \$52,000 \times 0.1250 = \qquad \qquad \qquad \$ \quad 6,500 \quad \text{tax free distribution} \\ & \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \qquad \$ \quad 45,500 \quad \text{taxable distribution} \\ & \text{Remaining basis in the rollover IRA} \qquad \qquad \qquad \$ \quad 7,500 \end{aligned}$$

### Example # 3 – Allocation of Basis

Rachel owns a traditional IRA with a value of \$125,000 with a basis of \$25,000. She takes a distribution of \$125,000, converts \$100,000 to a Roth IRA and keeps \$25,000. Her basis of \$25,000 cannot be attributed to the portion of the account that she keeps. The basis is allocated as followed:

\$100,000	Conversions	\$ 20,000	Basis recovered
\$25,000	Kept	\$ 5,000	Basis recovered

### Example # 4 – ROTH Conversion from after-tax 401(k)

Jane has \$100,000 in a Traditional 401(k), \$25,000 in non-deductible contributions, \$10,000 in gains attributable to the after tax contributions, \$45,000 in deductible contributions and \$20,000 in gains attributable to the deductible contributions. Jane leaves her employer and decides to roll over her old 401(k) into both a traditional IRA and a ROTH IRA account. The non-deductible contributions are rolled into a ROTH IRA. The basis for the non-deductible contributions is \$10,000. The taxable distribution for the rollover is \$10,000. The amount of the total conversion less basis equals the taxable gain. This is equal to the taxable distribution. The full \$65,000 from the deductible contributions and gain rolled into a traditional IRA is a non-taxable roll-over.

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