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**Greater Benefits of Roth IRA Conversions Coming in 2010** – With the financial crisis that began in 2008, many retirement accounts have seen big value declines over the last 16 months. As detailed in our Spring 2009 *Current Interest Newsletter*, provisions were put in place to help provide relief to retirees by allowing them to waive the 2009 required minimum distribution to better enable them to manage their accounts during these troubled economic times. Because of the depressed account values resulting from the financial crisis, there is an opportunity to get funds out of traditional IRA accounts now when the value is down and put them in a more tax-favored Roth IRA account. Currently, provisions exist that allow taxpayers to convert a qualified retirement plan or individual retirement account to a Roth IRA as long as modified adjusted gross income is \$100,000 or less and the taxpayer is not filing as married separate. The good news for 2010 is that the AGI limitation on conversions as well as the married separate limitation is eliminated. This should open the window of opportunity for many more taxpayers to take advantage of the conversion provisions and set themselves up for tax-free Roth IRA distributions. The rollover distribution is taxable at the account value but the 10% premature distribution tax does not apply. The benefit of converting retirement funds to a Roth IRA is (1) the relatively low tax cost of converting now before tax rates go up, and perhaps more importantly (2) accumulating gains and value in the Roth IRA as the economy and markets improve – all this with the final prize being tax-free qualified distributions in the future. The rollover conversions can be from a qualified plan including an eligible employer plan, 403(a) annuity plan, 403(b) plan, and an individual retirement account. If you're considering rolling over your traditional IRA or have any other questions regarding IRA conversion transactions, give one of the Martin Werbelow professionals a call.

**Study Identifies Most Regressive State Tax Systems** – Findings of a recent study conducted by the *Institute on Taxation and Economic Policy* showed that most states tax their middle and lower-income families far more heavily than the wealthy, paying a much higher share of their income in state and local taxes. The average state and local tax rate on the wealthiest one percent of families is 6.4% while the average tax rate on families in the middle 20% of the income spectrum is 9.7%. The average tax rate of the poorest 20% of families was the highest found in the study at 10.9% - a shocking 70% higher than the wealthiest rate! The lead author of the study, Matthew Gardner, was easily able to conclude that the “harsh reality is that most states require their poor and middle-income taxpayers to pay the most taxes as a share of income.” The study identified the “Terrible Ten” states which included Washington, Florida, Tennessee, South Dakota, Texas, Illinois, Michigan, Pennsylvania, Nevada, and Alabama. These states ask their poor families to pay almost 6 times and middle-income families up to 3 ½ times a share of their earnings in taxes than the wealthiest families. Several of the key factors that made these states among the most regressive included not levying an income tax or levying a tax at a flat rate, a high reliance on sales and excise taxes without providing low-income tax credits. Contrary to most public opinion within California, the study actually found California to be one of the most *progressive* states. According to the study, the least regressive state tax systems are in Delaware, the District of Columbia, New York, and Vermont. Further details on the study can be found on the Institute's website at [www.itepnet.org](http://www.itepnet.org).

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