Conversion of Traditional IRA to ROTH

<u>Example # 1 - Full Conversion</u>

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.

<u>Example # 2 – Partial Conversion</u>

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:

$14,000 / ($29,000 + $23,000 + $60,000) = 0.1250

$52,000 x 0.1250 =	$ 6,500	tax free distribution
	$ 45,500	taxable distribution
Remaining basis in the rollover IRA	$ 7,500	

<u>Example # 3 – Allocation of Basis</u>

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

<u>Example # 4 – ROTH Conversion from after-tax 401(k)</u>

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.