CPA Client Bulletin

Smart Tax, Business & Planning Ideas *from your* Trusted Business Advisor[sm]

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Citation and Resource Guide

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Back to the Brink

- The Tax Policy Center offers a guide to expiring tax cuts and the Administration's budget proposals at **www.taxpolicycenter.org/taxtopics/2013-Budget.cfm.**
- The Congressional Joint Committee on Taxation has a list of expiring federal tax provisions, through 2022, which you can find by going to **www.jct.gov/publications.html?func=startdown&id=4383.**

Planning Ahead for the 3.8% Surtax

- Tax expert, Bob Keebler, offers a guide to understanding the surtax at **http://image.emarketerpro.skyline technologies.com/lib/fe5f1570746107797c1d/m/1/Updated+Medicare+Surtax+Chart.pdf.**

Year-End Tax Planning for Investors

- The IRS explains the tax treatment of capital gains and losses at **www.irs.gov/pub/irs-pdf/p550.pdf,** pp. 52-58.

Year-End Tax Planning for IRAs

- To see the IRS rules on Roth IRA conversions, go to **www.irs.gov/pub/irs-pdf/p590.pdf,** p. 28.

Year-End Estate Tax Planning

- The IRS answers frequently asked questions about gift taxes at **www.irs.gov/businesses/small/article/0,,id=108139,00.html.**

Year End Tax Planning for Business Owners

- The 2012 limits on Section 179 deductions can be found at **www.irs.gov/pub/irs-drop/rp-11-52.pdf,** p. 15.

Practice Development Tip

Urge Multiple Roth IRA Conversions

As explained in this issue of the *CPA Client Bulletin*, year-end Roth IRA conversions may be especially attractive in 2012. When you meet with clients in November and December, see if they have traditional IRAs. If so, explain the possible advantage of converting to a Roth IRA this year while the tax rates on the converted amount are at relatively low levels.

When you discuss Roth IRA conversions with clients, point out the possibility of a recharacterization, in full or in part, back to a traditional IRA by October 15, 2013. Such a recharacterization can bail out taxpayers who mistime the conversion. It's a rare "look back" opportunity in tax planning.

To help clients make the most of this opportunity, suggest that they make multiple Roth IRA conversions using a different type of investment for each Roth IRA. An example can illustrate the potential advantage of multiple conversions.

Suppose Harry Walker has $100,000 in his traditional IRA, all from pretax contributions. He has $50,000 in stocks and $50,000 in bonds. Harry converts it all to a Roth IRA in December 2012.

In September 2013, Harry's stocks are down 20% to $40,000, but his bonds are up 10% to $55,000. Thus, Harry's Roth IRA is worth $95,000. Rather than pay tax on a $100,000 conversion when his Roth IRA is worth only $95,000,

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Harry recharacterizes the entire Roth IRA and owes no tax. That's fine, but Harry has lost the $5,000 gain in bonds, which eventually could be withdrawn, tax-free.

Instead, Harry could have converted to a $50,000 stock Roth IRA and a $50,000 bond Roth IRA in 2012. In 2013, Harry could recharacterize the stock Roth IRA, now worth only $40,000, to avoid paying tax on the devalued account. However, he could keep his bond Roth IRA in place, paying tax on a $50,000 conversion in order to keep an asset now worth $55,000.

After a recharacterization, the taxpayer has to wait to reconvert the traditional IRA to a Roth IRA. The reconversion can only happen after the later of either the beginning of the tax year following the tax year in which the amount was first converted to a Roth IRA or the end of the 30-day period beginning on the day on which the IRA owner recharacterizes the amount from the Roth IRA back to a traditional IRA. Therefore, in Harry's case, he can wait more than 30 days and reconvert the $40,000 traditional IRA, now holding stocks. Assuming no upward surge in that time period, he'll owe less tax on the reconversion than on the original conversion. Moreover, Harry can recharacterize again in 2014, if stocks keep sinking.

This example (stocks and bonds split 50-50) is simplified. Clients can set up as many different Roth IRAs as they'd like, by asset class or by market sector or any other way they wish to slice and dice their holdings. The more Roth IRAs they create now, the more opportunity they'll have next year to cut their losses and let their winners ride.

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