



Wealth Management

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A FEE-ONLY REGISTERED INVESTMENT ADVISOR

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Summer 2015

8 Compelling Tax Reasons For Roth IRA Conversion

Should you convert assets in a traditional IRA into a Roth? It depends on your personal circumstances and preferences, and there's no right or wrong answer. Still, there are a number of significant reasons why you might want to pull the trigger on a Roth conversion. Consider these eight:

1. Tax bracket management.

Most people who hesitate to make a conversion are stopped by the tax consequences—that you will owe income tax on whatever part of the converted amount hasn't already been taxed. But you could minimize the pain of that by making gradual, year-by-year conversions in which you transfer only as much as will take you to the upper limits of your current tax bracket. That lets you avoid having much of the conversion taxed at a higher rate, and you can repeat this strategy in subsequent years until you've converted most or all of the funds in your traditional IRA.

2. Tax-free payouts. Once you've paid the conversion tax, it can be free sailing as far as taxes are concerned. Investment income and capital gains in the Roth aren't taxed now and won't be taxed at all if withdrawals are made from a Roth that's at least five years old and come out of the account after age 59½, because of death or disability, or

to pay first-time homebuyer expenses (up to a lifetime limit of \$10,000).

3. Minimizing net investment income tax.

Some investors must pay a 3.8% surtax on whichever is lower—their net investment income (NII) or the amount by which their modified adjusted gross income (MAGI) exceeds \$200,000 for single filers or \$250,000 for joint filers.

Although payments from traditional IRAs don't count as NII, they are part of your MAGI for this purpose. But the tax-free distributions from a Roth leave your MAGI untouched.

4. No required distributions.

With a traditional IRA, you must begin taking required minimum distributions (RMDs) in the year after the year in which you turn age 70½—and then you have to keep taking RMDs every year for the rest of your life. The amount of the annual RMD is based on a life expectancy table

and the balance in the account at the end of the prior year. However, that doesn't happen with a Roth IRA. You can leave your account intact if you don't need the cash, preserving a larger nest egg for your heirs—and one that they, too, will be able to tap without income tax consequences.

5. Flexibility during retirement.

If you convert some or all of your

Our Pledge To You

A fiduciary is “one who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the clients” (defined by the CFP® *Standards of Professional Conduct*). As a fiduciary, our clients entrust us with their funds, which in turn places a high standard on our conduct and integrity. This fiduciary duty is the core principle underlying our Code of Ethics, and our promise to:

- Put our investors' interests first at all times.
- Manage investments with prudence, a long-term perspective, and the goal of providing returns consistently better than those of competitors.
- Hold ourselves to the highest standards of ethical behavior and fiduciary responsibility.
- Strive to be the highest-value provider of investment services by offering outstanding performance and service while keeping costs as low as possible.
- Communicate candidly about investment risks and costs as well as potential rewards.
- Maintain highly effective controls to protect the assets and confidential information that are entrusted to us.
- Employ a talented, diligent, and diverse crew to ensure that our clients are well served.
- Adapt, evolve, and continuously improve in pursuit of excellence in all we do.

For more information, please contact us for a copy of our Code of Ethics.

Steven L. Kane, CPA/PFS, CFP®



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When Can You Reconvert To A Roth?

Suppose you converted a traditional IRA to a Roth IRA only to see the value of the assets decline significantly. So you “recharacterized” the Roth into a traditional IRA before the tax return deadline. But now the market has shifted again and the assets are making a comeback. Can you pull another switcheroo and shift back to the Roth?

The short answer is “yes,” as long as you meet the timing requirements for the change—a “reconversion” in tax parlance.

Don’t confuse a reconversion with a recharacterization. The latter is the process of redesignating a Roth IRA as a traditional IRA following a conversion. It’s as if the conversion never occurred. The deadline for a recharacterization is your tax return due date for the year of the conversion plus any extensions.

For instance, assume you converted assets in a traditional IRA to a Roth early in 2015. That means you have until October 15, 2016—the extended due date for filing 2015 returns—to recharacterize. And there’s no restriction on how soon after the

conversion that a recharacterization can occur. It might even be the next day if you suddenly change your mind.

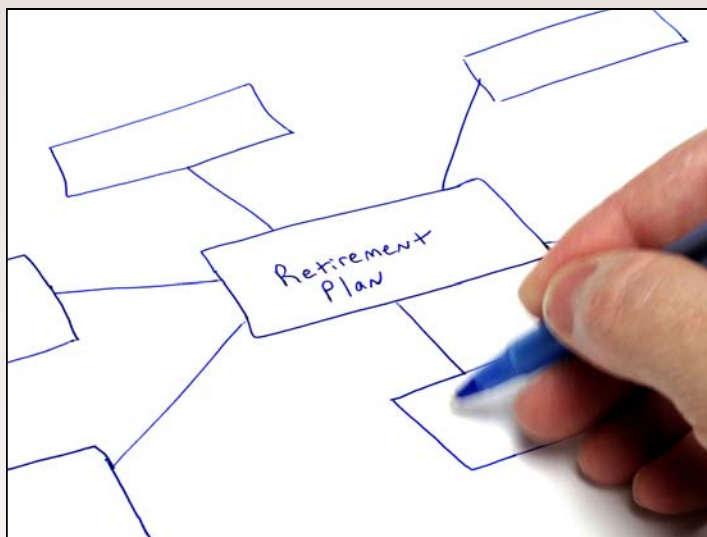
But there’s not as much flexibility with a reconversion. The earliest date you can reconvert is the latter of (1) the beginning of the tax year following the tax year of the conversion and (2) the end of a 30-day period beginning on the day of the recharacterization. After that date, you can reconvert at any time, and the event will be treated like a first-time conversion.

But then the stock lost 25% of its value. When you file your 2015 return, you’ll have to pay tax on the full \$100,000. In a 39.6% bracket, that will cost you \$39,600 (a lot more than the \$29,700 you would owe based on its current \$75,000 value).

Because of the decline, you recharacterized your Roth as a traditional IRA on July 1, 2015—and thus avoided any tax on the conversion. But then the stock started to rebound and now it’s worth \$110,000. Under the rules for reconversions, the earliest date you can reconvert to a Roth is January 1, 2016 (which is later than the end of the 30-day period after the recharacterization).

Due to these timing restrictions, you might choose to wait until late in the year to recharacterize a Roth that has declined in value. That will give you greater flexibility over the earliest reconversion date.

Finally, note that these rules apply only to amounts that actually were converted. If you don’t convert an entire IRA, you’ll have more control over any recharacterization or reconversion. ●



Let’s say you converted stock in a traditional IRA that was valued at \$100,000 to a Roth on May 1, 2015.

You Know You’re Getting Old When You Get RMD Notice

Growing older is something everyone must face, even if it’s only one day at a time. But what is old, and how do you know when you get there? One way is when you get a notice that you have reached the year of your 70th birthday and must begin taking required minimum distributions from your 401(k) or other retirement plan or a traditional IRA account. This is a wakeup call, and a shock, for some people.

Here is a typical notice from an IRA custodian. Sent this year, it reads, “Federal tax law requires that you receive taxable payments from your

traditional IRA every year once you reach age 70½. These payments are called required minimum distributions (RMDs). If the RMD is not taken, the IRS could assess a 50% excess accumulation penalty tax on the amount of the payment that should have been distributed but was not. According to our records, you have a traditional IRA with us and will attain age 70½ in 2015.”

Owners of Roth IRAs do not receive these notices because there’s no tax deduction for Roth contributions—that money already has been taxed—and withdrawals therefore are tax-free.

A woman who recently received a RMD notice called her IRA custodian and exclaimed that she was shocked into reality about her age when she received the notice. “Even though I was of course aware of my age at one level, the notice shocked me into reality that indeed I am getting old.” Although still working, she said she plans to retire after she takes her first withdrawal by April of 2016. By law, RMDs may be taken as late as April of the year following the year a person turns 70½.

Now, back to the question of how old is old. According to statistics compiled by the Organization for

7 Traps For IRA Owners To Steer Around

The rules for IRAs offer plenty of opportunities to save a tidy nest egg through contributions directly to the accounts as well as rollovers from 401(k)s or other employer-sponsored retirement plans. Funds in the accounts normally compound tax-deferred while you're working and into the early years of your retirement. You won't owe a penny of federal income tax until you take money out of your IRA.

But if you don't fully understand those rules for IRAs you could run into trouble. Consider these seven common tax traps:

1. You withdraw money from your IRA too early. Because IRAs are meant to be used for retirement saving, the government will penalize you for taking withdrawals prematurely. Generally, a 10% tax penalty applies to distributions made before you reach age 59½, although there are some exceptions—your heirs won't owe the penalty on withdrawals if you die before you reach that age, and you also are allowed to take “substantially equal periodic payments” over several years without penalty. But when you do have to pay the penalty, 10% is added to the regular income tax you owe on the withdrawal.

2. You fail to withdraw money from your IRA. But you're also not allowed to keep money in an IRA indefinitely. The IRS requires you to begin taking

required minimum distributions (RMDs) in the year after you reach age 70½. Then you must take an RMD, based on a life expectancy table and the amount in your account at the end of the prior year, for each succeeding year. Failure to take RMDs results in a penalty equal to 50% of the amount that should have been withdrawn.

3. You don't complete a rollover in time. The tax law allows you 60 days from the time you receive a distribution from a tax-deferred retirement plan to redeposit the funds in an IRA. This rollover is exempt from federal income tax. That's generally true whether the rollover comes from an employer plan or from another IRA. However, if you don't redeposit the same amount as you withdrew within 60 days, the transfer is treated as a taxable distribution.

4. You double up on RMDs in the first year. Technically, you don't have to take your first RMD until April 1 of the year following the year in which you turn age 70½. However, if you wait until then to withdraw that first year's RMD, you still must take an RMD for the second year as well. What's more, doubling up on RMDs in one year may increase your overall tax by pushing you

into a higher tax bracket. You might end up owing less in taxes if you take the first distribution during the year you turn 70½.

5. You roll over to another IRA more than once a year. Although rollovers aren't taxed as long as they're completed within 60 days, you can make an IRA-to-IRA transfer only once during a 12-month period. Violation of this “once-in-a-year rule” results in a taxable transfer. Previously, the IRS treated this rule as applying separately to each IRA you own. However, because of a recent Tax Court case and a subsequent change in IRS rules, the once-a-year rule now applies to all

IRAs. So if you make a transfer between any of your accounts, you won't be able to make another one until a year has passed.

6. You make the wrong choice for a spousal rollover. Spouses who inherit an IRA may elect to treat the IRA as their own, remain as a beneficiary of the deceased spouse's IRA, or “disclaim” the IRA so that it goes to a contingent beneficiary. This complex decision could have unintended tax consequences. For instance, if you inherit an IRA, you are under age 59½, and you need to make a withdrawal, designating the IRA as your own could result in a 10% tax penalty.

7. You ignore estate tax ramifications. IRA owners sometimes forget the estate tax implications of inherited IRAs. Because IRA assets will be included in your taxable estate, the person you designate as beneficiary can make a difference. Spouses normally can inherit an unlimited amount without owing estate taxes, but that money could be taxed when the second spouse dies. It pays to consider all of the possible implications when you work with your advisors to devise an estate plan that fits your situation.

By paying close attention to the rules, and sidestepping these traps, you can derive the maximize benefits from your IRAs. ●



Economic Cooperation and Development (OECD), whose membership is composed of 36 nations, the average man in the U.S. as of 2011 could expect to live to age 76. Women in the U.S. the same year can expect to live to an average age of 81.

As far as longevity is concerned, the U.S. doesn't fare very well when compared to other nations. This country ranked No. 26 among the 36 OECD member nations, with an overall life expectancy for both genders of 78.7.



That's the bad news. Now, here's the good news: people are living longer as time passes.

Here's proof: according to statistics compiled by Infoplease, overall life expectancy in the U.S. in 2014 had moved up to 79.56 years.

Time is precious. Enjoy the rest of your life on earth. Proper retirement planning will help ensure your life's enjoyment after you reach “old age.”

We are more than happy to assist with your planning. ●

Market Data Bank: 2nd Quarter 2015[¶]



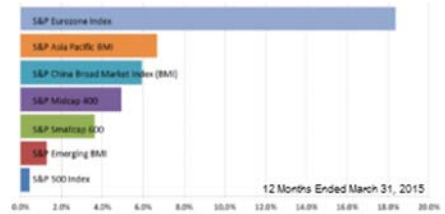
AGING BULL

Since 1900, only three of 23 bull runs lasted longer than the current 6¼-year run. The likelihood of a bear market — a correction of at least 20% — increases as the bull ages. But economic conditions preceding bear markets in the past were not present at the start of 3Q2015.



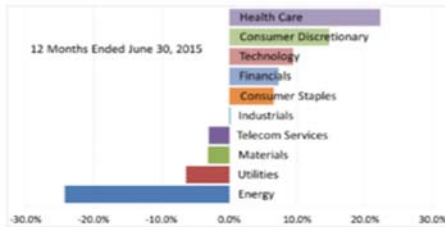
RATE SPOOKS

Most of the year's stock-price dips were related to fears about the end of monetary stimulus by the Fed, which was implemented in October 2014, and then worries about when the first rate hike would come. Strengthening economic data trumped fears and drove stock prices.



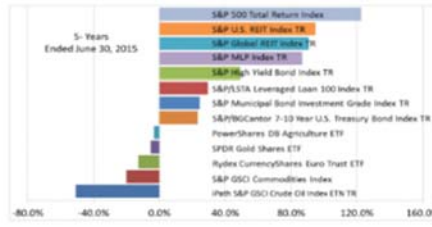
AMERICA, THE EXCEPTIONAL

The past five-years showed why America is great. The U.S. led the global recovery after the global crisis of 2008. The S&P 500 rose 122% versus 45% for Eurozone stocks, 36% on Asia Pacific issues, 32% on China, and a loss of 13 on Emerging Markets stocks.



HEALTH CARE UP

Health care outperformed all major industry groups by a big margin for the 12 months. Consumer discretionary stocks had a strong quarter again, on strength in jobs. With crude oil's weakness, energy tanked for the third quarter in a row. Utilities have suffered on fears rates might rise sooner than expected.



DIVERSITY WORKED=

Across 13 asset classes over a five-year period -- a long time, the best investment by far was U.S. stocks. The worst: crude oil and other commodities. The euro lost 13% versus the dollar; U.S. Treasuries returned 23% or 4.6% per year. Gold shot from about \$1,200 an ounce to \$1,800, settling recently at \$1,120.



Past performance of investments is not a very reliable indicator of future performance. ± Indices and ETFs representing asset classes are unmanaged and not recommendations for any specific investment. Foreign investing involves currency and political risk and foreign-country instability. Bonds offer a fixed rate of return while stocks fluctuate. ¶ Estimated bottom-up S&P 500 earnings per share as of June 25, 2015 was \$119.06 for 2014 and \$133.74 for 2016. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S survey of consensus estimates. Standard and Poor's for index price data through July 2, 2015; and actual earnings data through December 31, 2014.

Reasons For Roth IRA Conversion

(Continued from page 1)

traditional IRA funds into a Roth, you'll have more flexibility in managing your tax liability in the future. For instance, if you need money, you could decide to withdraw it from a traditional IRA or another taxable account or from a Roth or a combination that suits your needs. Typically, it's advisable to withdraw taxable amounts up to the top of your current tax bracket before drawing money out of the Roth. Yet if you don't want to owe any current taxes, you can withdraw funds from the Roth (as long as you've had the account for that initial five-year period).

6. Taking advantage of ordering rules for distributions. Even if you

haven't had the Roth for five years and don't yet qualify for completely tax-free distributions, you still can take money out of a Roth without paying tax. Early withdrawals are taxed under special "ordering rules" that treat distributions as coming first from your contributions to the account, then from amounts you converted from a traditional IRA, and finally from taxable earnings. So most or all of your payout may be tax-free anyway. You'll have to pay tax only if you withdraw a portion representing investment earnings in the account.

7. Protection against tax increases. If federal income tax rates rise in the future, the tax protection provided by a Roth will become even more valuable, especially if you

are able to convert to a Roth in a year in which you are in a relatively low tax bracket.

8. Estate tax considerations.

Finally, income taxes aren't the only taxes that may be a consideration. Like assets in a traditional IRA, funds in a Roth are included in your taxable estate, but may be protected by the generous federal estate tax exemption (\$5.43 million in 2015). In addition, though your heirs will be required to take RMDs from the Roth during their lifetimes, those withdrawals should be income tax-free and thus more valuable than taxable withdrawals from an inherited traditional IRA.

Of course, there are other factors that may apply to your situation. Make an informed decision. ●