



## UPCOMING ROTH IRA CONVERSION RULES

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Changes to the IRA conversion rules going into effect for 2010 will offer many taxpayers an opportunity to re-think their retirement planning. However, it is important to begin planning for the potential conversions now. Here are some of the key areas to begin thinking about in considering your options.

Beginning in 2010, taxpayers can take advantage of a more liberal rule for converting IRA funds to a Roth IRA. For 2009 and prior, modified adjusted gross income (AGI) must be below \$100,000 in order to convert traditional IRA funds to a Roth IRA. The AGI threshold does not include IRA amounts converted to a Roth or any required minimum distributions from an IRA. Starting in 2010, the AGI threshold is removed.

Upon conversion, a taxpayer incurs tax on the value of the IRA converted to the Roth except for any amount from previously non-deductible contributions. A special rule applies for conversions in 2010 only. In 2010, a taxpayer automatically spreads the income from the conversion into 2011 and 2012. For example, a taxpayer converts \$50,000 from an IRA to a Roth IRA during 2010. The taxpayer pays the tax on \$25,000 in 2011 and \$25,000 in 2012. The taxpayer may instead elect to recognize the entire taxable amount in 2010 and pay all the tax on the 2010 tax return. A major factor in making the election depends on future tax rates. It seems inevitable that Congress will increase tax rates beginning in 2011. In addition, the recent health reform proposal would be funded by a surtax on high-income individuals. A large portion of conversions will probably occur late in 2010, when 2011 tax rates should be known. We believe New Jersey will follow the Federal tax law in recognizing the conversions as income.

Conversions should be considered by taxpayers who (1) are not utilizing the full amount of the low tax brackets; (2) have a number of years to go before retirement and can recoup the tax paid on conversion; (3) anticipate being taxed in a higher bracket in the future than they are now; or (4) can pay tax on the conversion from non-retirement account assets.

All traditional IRAs are subject to a one-rollover per 12 month period rule regarding rollovers to other traditional IRAs or tax-favored employer plans. A traditional IRA conversion to a Roth IRA is exempt from this rule. A taxpayer is allowed to convert funds to a Roth IRA even if a rollover occurred to

the traditional IRA being converted to the Roth within the prior 12 months. Rollovers to a Roth IRA can also come directly from SEP IRA, and SIMPLE IRA plans. However, conversions from these plans must take place after two years of participation to avoid being subject to a 25% penalty. Conversions from other qualified retirement plans are also allowed.

Roth IRAs have a few advantages versus traditional IRAs. To begin, distributions from traditional IRAs are taxed as ordinary income. Roth distributions are tax-free if they are "qualified distributions" - that is, if they are made (1) after the 5 tax year holding period that begins with the first tax year a Roth conversion is made and (2) when the account owner is 59 1/2 years of age or older. The 5 year holding period applies to all ages. For example, a taxpayer converts funds from a traditional to a Roth IRA at age 62. Even though the taxpayer is over age 59 1/2, the holding period for the converted funds is still 5 years. If a distribution (related to the converted funds) is taken prior to the 5 year holding period a 10% additional tax will apply to the amount of converted funds distributed and any additional amount included in income.



Next, traditional IRAs are subject to the required minimum distribution (RMD) rules which require an RMD to begin in the year the taxpayer turns 70 1/2 years of age. Roth IRAs are not included in the RMD rules. In addition, if a taxpayer generates earned income after age 70 1/2, regular contributions can be made to the Roth. For traditional IRAs contributions end in the year the taxpayer reaches age 70 1/2.

Since Roth IRA qualified distributions are tax-free they can be used to help supplement living expenses in the future without a tax impact. For example, qualified Roth distributions do not enter into the calculation for taxable Social Security benefits and have no impact on AGI based deductions (i.e. 7.5 % medical AGI threshold). At death, the tax free benefits pass on to beneficiaries but are subject to the same post-death minimum distribution rules that apply to regular IRAs.

The planning process for conversion should start now. We are ready to assist you with this planning opportunity. Please call our office for further information.

# Meeting with New Jersey Governor-Elect Chris Christie and Lieutenant Governor-Elect Kim Guadagno

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On Friday, November 6, 2009, I had the honor of attending a roundtable discussion with New Jersey Governor-elect Chris Christie and Lieutenant Governor-elect Kim Guadagno. The meeting took place at Guttenplan's frozen dough plant in the heart of the Northern Monmouth County area. There, the Governor-elect and Lt. Governor-elect heard from Northern Monmouth business owners representing many industries including tourism and entertainment, employment, insurance, real estate, transportation, retail, lending and accounting. The meeting, which lasted just over an hour, covered salient topics such as costs of unemployment and workers compensation insurance, environmental regulations, tourism taxes and the lack of tourism advertising.

Christie and Guadagno were ready to roll up their sleeves and switch into governing mode once the grandstanding and showmanship of the elections had ended earlier in the week. They were there to listen to the concerns of the business owners and representatives and took copious notes during the meeting. Christie indicated he does not think the people of New Jersey expect that Guadagno and he have all the answers, and he is quick to confirm that they do not. But he is preparing for his mission by first seeking guidance from his constituents. He offered few details on how they ultimately will tackle the big issues, but his first step is to listen. They encouraged the business people at the roundtable to email them their continuing concerns along with their proposals for fixing the problems.

Some of the specific issues discussed at the roundtable were as follows:

For tax years beginning January 1, 2009, Governor John Corzine enacted an individual tax surcharge of 10.25% for taxable income between \$500,000 and \$1 million and 10.75% for taxable income greater than \$1,000,000. This surcharge is set to expire on June 30, 2010. Governor-elect Christie vows that if the legislature sends this surcharge back to him to extend, it will be vetoed. He will find other ways to cut costs to make up for the loss of income.

Christie's financial team is meeting with Treasury officials to go over budget figures in an attempt to keep spending in line as state revenue numbers continue to fall. He indicated that Governor Corzine has agreed to ask his administration to cut \$400 million in expenses from the 2009/2010 budget. The Governor-elect also would like to see monthly revenue projections in an effort to more closely match expenditures to income.

A concern was raised at the meeting regarding the high cost of health insurance for self employed individuals who are ineligible for group plan rates. Governor-elect Christie would quickly push to open the health insurance market, perhaps to competition from out of state companies, as well as roll back mandates on coverage so that insurance companies could offer cheaper policies.

Governor-elect Christie and Lieutenant Governor-elect Guadagno have a huge task at hand to right the wrongs with our state budget and financial woes. Putting a positive foot forward, they are reaching out to the business representatives in the State of New Jersey and asking for their help. They realize they cannot do this alone. Christie said at the meeting, "I'm not sitting here saying I'm the biggest genius in New Jersey. Get your comments in."

## FEATURED EMPLOYEE: CHRIS O'NEIL



Chris O'Neil is an accountant at The Curchin Group and works in the Firm's Accounting and Auditing Department. She has been with the Firm since February 2006 and specializes in auditing community associations. This past September, Chris competed in her first triathlon.

"I started running about 6 years ago. At the time, one of my daughters was running cross-country and was having a bit of a hard time. I would hear myself cheer her on, saying things like 'It doesn't matter how fast you go or where you place, just that you finish the race,'" said Chris. That's when Chris decided to take her own advice and start running. Over the next few years, her dream turned to competing in a triathlon. However, her largest obstacle became registering before the ranks were full.

Finally, in 2009, Chris successfully registered for her triathlon. On September 13th at the Sandy Hook Gateway National Recreational Area, at 7:00 am, Chris started her race. She swam a half mile, biked for 11 miles, and then ran for 3 miles. Chris had an impressive time of just one hour and thirty-two minutes. She finished 965 out of 1,562 women. "The spirit and energy of the other women that ran with me was truly awesome," said Chris.

The thing that Chris is most proud of, though, is the reaction from her children (Erin, 18; Shannon, 16; and Sean, 13). They are proud of her. "I started to get a lot of compliments about the race from people that I hadn't told. Turns out it was my daughter's bragging about me while she was working at a local supermarket."

When asked what she loves most about working at Curchin, Chris said, "The flexibility it affords me to see my kids' many activities. The work life balance is the most important thing to me."

We look forward to hearing about Chris' victory at the next race. "I can't wait for another!" she smiled.

# CURCHIN NEWS



**The Curchin Group Hosts Fourth Annual Miniature Golf Tournament for Charity** - The Curchin Group raised a record-breaking \$16,000 for local charities in October 2009 by hosting the Fourth Annual Curchin Open, an indoor miniature golf tournament, held at Curchin's Red Bank, NJ office. The firm's professionals lovingly toiled over each of the "holes" that made up the 9-hole course. Players donated their greens fees to support Monmouth Museum and Sisters Academy. Additional fundraising events included Fantasy Scratch-Off Golf and an interactive hole-in-one competition. Those in attendance enjoyed a challenging round of golf, as well as an array of tasty snacks and beverages. The event was sponsored by over 40 generous businesses and individuals. A big "Thank you" to all who supported this successful event!

**Curchin Partner Attends INPACT Conference** - In November 2009, Peter Pfister, CPA, Senior Tax Partner, attended INPACT Americas' semi-annual Conference in San Antonio, Texas. INPACT Americas is a nonprofit, internationally affiliated

association of accounting firms. The Conference objective was to teach principles and skills necessary in the successful management of an accounting practice, including strategies for client service and communication, using data mining, state and local tax issues and digital best practices.

**Curchin Partner Participates at the Community Associations Institute Senior Summit** - David Ferullo, CPA, Senior Audit Partner, served as one of 15 panelists at the New Jersey Chapter of Community Associations Institute (CAI-NJ) Senior Summit, in August, 2009. The seminar focused on the issues faced by boards, committees and homeowners in retirement and active adult communities. Attendees participated in discussions on a variety of topics ranging from accommodating disabilities, understanding long-term care, and fair housing/age restriction issues to board responsibilities, risk management, maintaining long-term reserves and re-evaluation of your community's investment options. Ferullo participated in a roundtable discussion addressing the Current Budget and Financial Concerns for Boards and Homeowners.

**Curchin Partner Gives Presentation at the National Association of Credit Union Supervisory & Auditing Committees' Annual Conference & Exposition** - Managing Partner, Robert C. Fouratt, CPA, spoke at the National Association of Credit Union Supervisory & Auditing Committees' ("NACUSAC") Annual Conference & Exposition, held in San Diego, CA in June, 2009. Fouratt's session, entitled "Preventing Identity Theft—New Red Flag Regulations," focused on updates impacting credit unions and what identity theft red flags to watch out for in 2009.

**Curchin Professionals Installed to the New Jersey Society of Certified Public Accountants** - Roy H. Kvalo, CPA, Director of Litigation & Valuation Services was recently installed as Treasurer, and Michael Adago, CPA, Supervisor, was installed as Director of the Monmouth Ocean Chapter of the New Jersey Society of Certified Public Accountants ("NJSCPA"). Kvalo heads up Curchin's Litigation and Valuation Services Department, where he provides expert forensic accounting and business valuation services for new and existing clients. As a Supervisor in Curchin's Accounting and Auditing Department, Adago provides leadership on some of the Firm's largest clients.

# CURCHIN TAX NEWS

## NJ GROSS INCOME TAX RATE INCREASES FOR 2009

TAXABLE INCOME:	NEW RATE	PAST RATE
\$400K - \$500K	8%	6.37%
\$500K - \$1 Million	10.25%	8.97%
> \$1 Million	10.75%	8.97%

These new rates are scheduled for 2009 only. Governor-elect Christie has commented that rates would revert to the prior rates for 2010. Tax rates for taxable incomes below \$400K will remain unchanged for 2009.

## 2009 NJ PROPERTY TAX DEDUCTIONS

Property tax deductions for gross income greater than \$250K will be zero. For gross income less than \$150K the maximum deduction of up to \$10K remains. Between \$150K and \$250K of gross income the property tax deduction maximum will be \$5K for individuals not over age 65, blind or disabled.





# CURCHIN

Celebrating over 50 years in Monmouth County, New Jersey, The Curchin Group helps small to mid-sized businesses and individuals reach their financial goals through providing a broad range of Assurance; Tax; Financial Planning; and Business Advisory Services. The firm is dedicated to giving solid financial advice, sustaining long-term relationships with its clients and employees and giving back to the surrounding community. For more information about Curchin, please contact Bob Fouratt at 732.747.0500 or [bfouratt@curchin.com](mailto:bfouratt@curchin.com)

From left to right: Lynn Conover; Dave Ferullo; Peter Pfister; Bob Fouratt; Carolyn Kvalo.

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