

# MVFG ADVISOR

M A R T H A ' S V I N E Y A R D F I N A N C I A L G R O U P

W W W . M V B A N K . C O M

Happy New Year! As we begin a new year and a new decade I look forward to the many opportunities and possibilities before us. As many of you know the bank opened a new branch in Woods Hole in December. Named The Bank of Woods Hole this first off-island branch of Martha's Vineyard Savings Bank has been wonderfully received by the local community. Already we have had staff from the Financial Group visit and regularly we will be there to meet customers and prospects. Be sure and stop in to visit if you have not done so already.

As reported in the December issue of MVFG Advisor little tax reform has surfaced. What we do know is that the estate tax expired as of December 31, 2009 and will go away for a year, coming back to life in 2011 - at a higher rate and lower exemption. As always, we will keep you posted should a change occur. Our article this month is on Roth IRA conversions in 2010. Many individuals were ineligible to convert to a Roth IRA because of their income. For 2010 new rules apply. As with all tax issues be sure to consult your tax professionals as tax strategy differs for each individual.

As the largest money manager on Martha's Vineyard we stand ready to assist our clients in protecting their assets and planning for their retirement. As you have entrusted your financial assets to us we never forget that we are in business to serve you and take that charge very seriously. Our team of experienced professionals are always available to meet with you to review your account and to discuss new products and services available.

Happy New Year and best wishes for a safe and prosperous 2010!

Bob Ripley, Executive Vice President



**Martha's  
Vineyard**

FINANCIAL GROUP

For more information on our investment services or to schedule a confidential visit, please contact the Financial Group at 508-693-8850.

MARTHA'S VINEYARD FINANCIAL GROUP - SINCE 1991

### Be Ready for Roth IRA conversions in 2010

**Opportunity for higher-income earners to convert** - If you have been ineligible to convert to a Roth IRA because of your income, you may now be able to take advantage of these potentially tax-free accounts. Starting in 2010, most taxpayers – regardless of their income or tax-filing status – will be able to convert a Traditional IRA to a Roth IRA. Although there will still be income limits for making annual contributions to a Roth IRA, the income limit for conversions is being removed. You may also roll over assets in your workplace savings plan, such as a 401(k) plan, to a Roth IRA as a conversion. You may want to consider this strategy if you are about to change jobs or are approaching retirement.

**Things to consider before converting** - When converting from a Traditional IRA or a qualified employer-sponsored retirement plan to a Roth IRA, you will owe income tax on any taxable portion of the account balance. Conversions must occur on a pro rata basis, meaning you cannot choose to convert only the portion you have already paid taxes on. Your advisor or a tax expert can explain this in more detail.

**Converting in 2010 provides you with tax options** - If you do a conversion in 2010, you can elect to pay the entire tax bill on the conversion in 2010. Or, as long as the converted amounts are not withdrawn before 2012, you can include half of the taxable amount of the conversion in your 2011 return and the other half in your 2012 return. It is generally better not to pay those taxes with funds withdrawn from the IRA or other retirement accounts, since doing so could generate even more tax liability and reduce the additional advantage of potential tax-free growth on the full amount of the conversion. Again, your advisor can help you understand the implications for your situation.

**Should you convert to a Roth IRA? Here are a few key factors to consider with your advisor:**

**Do you want to pay taxes now or later?** When converting from a Traditional IRA to a Roth IRA, you will owe income tax on any taxable portion of the amount that you convert. When making conversions in 2010, you can spread the tax liability for the amount converted equally across your 2011 and 2012 tax returns, as previously mentioned.

**Do you expect tax rates to go up?** Currently, 35% is the highest tax bracket for federal income tax purposes. But if Congress raises tax rates, not only would taxes on distributions from Traditional IRAs go up, but taxes on Roth conversions would rise as well. Paying a lower tax rate on conversions today and having tax free distributions later could be advantageous.

**Consider the source you use to pay the taxes.** It is generally better to pay the tax with funds that are not withdrawn from an IRA or other retirement account; doing so could generate yet more tax liability, reduce the additional advantage of potential tax-free growth on the full amount of the conversion, and offset any tax savings that you may gain by converting.

**Do you plan to leave at least some of the funds to family?** Inherited Roth IRAs may provide certain tax advantages. Non-spouse beneficiaries must take distributions over their life expectancies but, unlike with a Traditional IRA, they generally don't have to pay income tax on the withdrawals. When a spouse inherits a Roth IRA, he or she has the option, as with a Traditional IRA, to roll over the retirement account into his or her own Roth IRA. With a Traditional IRA, beneficiaries must include any taxable distributions they receive in their gross income, independent of any estate taxes they may owe. Beneficiaries may be able to claim a deduction for estate tax resulting from certain distributions from a Traditional IRA, and they generally can deduct the estate tax paid on any part of a distribution that is income with respect to a decedent. With a Roth IRA, because you pay the income tax up front – generally in the year of a Roth conversion – your beneficiaries will not be subject to the income tax later. However, the Roth IRA assets may still be subject to estate tax.

**Benefits of Roth IRAs** - Roth IRAs offer certain benefits that are not available with a Traditional IRA.

- Qualified distributions are not included in your gross income if you have met the five-year aging requirement and are age 59½ or older or disabled. (Early withdrawals are subject to a 10% penalty, although certain exceptions apply.)
- A Roth IRA does not require you to take annual minimum distributions beginning at age 70½. You can withdraw money when needed or let it potentially grow free from federal, and in most cases, state income taxes. This can significantly increase the amount available for your retirement or for your beneficiaries.
- Once the five-year aging requirement is satisfied, beneficiaries can also withdraw money without paying federal income tax. Beneficiaries, however, are required to take annual minimum distributions.

As with all tax issues you should consult your tax professional as tax strategy differs from individual to individual. If we can assist you please call us at 508-693-8850. We look forward to working with you in 2010!