

## **Roth Conversions and Individual Retirement Annuities**

With the upcoming 2010 law changes that will liberalize conversions to Roth IRAs going forward, our ERISA consultants on the Columbia Management Resource Desk have been answering an increasing number of calls from financial advisors who have specific questions about Roth IRA conversions and the tax implications for their clients.

Through our relationship with the Columbia Management Learning Center, we regularly guide Columbia Management's financial advisor partners through the rules and regulations that apply to Roth IRA conversions. A recent call with Morgan Stanley advisor in Arizona is representative of a typical question on this subject. The advisor queried:

### **When an individual converts a Roth IR annuity, how is the annuity contract valued for conversion taxation purposes?**

#### **Highlights of Recommendations**

- If an individual converts an IRA or qualified plan to a Roth IRA, he/she must pay taxes on any pre-tax assets that are converted. This rule applies to conversions of individual retirement (IR) annuities and annuity contracts held in IR accounts as investments as well.
- Generally speaking, when an individual converts an annuity contract, the amount includible in gross income is the fair market value (FMV) of the contract on the date the annuity contract is converted to the Roth IRA.
- The good news is—the insurance carriers offering the annuity contracts are responsible for properly determining the FMV of converted annuity contracts, and reporting the amount on IRS Form 1099-R to the taxpayer and IRS.
- The rules for determining FMV for conversion purposes for IR annuity contracts, or annuity contracts within IR accounts, are found in Treasury Decision 9418, and Treas. Regs. 1.408A-4, Q&A 14.  
[http://edocket.access.gpo.gov/cfr\\_2009/apr/qtr/pdf/26cfr1.408A-4.pdf](http://edocket.access.gpo.gov/cfr_2009/apr/qtr/pdf/26cfr1.408A-4.pdf)
- These rules are complex; and different methods are used for various types of annuity products. Often, the rules leave room for interpretation as the rules pre-date many modern annuity features. It is wise to seek competent tax advice.

#### **Conclusion**

Determining the taxable portion of a Roth IRA conversion that involves an annuity contract is a complicated matter, and clients should consult their tax professionals for precise information. Ultimately, the insurance carrier offering the annuity contract is responsible for accurately determining the FMV of the contract for conversion purposes. Nevertheless, it is important for financial advisors to have a general understanding of the rules. That's why having a reliable source available, such as the Columbia Management Resource Desk, to guide advisors through the Roth conversion rules can turn a difficult client question into an opportunity to differentiate the advisor and build relationships.