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BLOG POST

Fiscal Cliff Legislation's Impact on Roth Conversions for Deferral Retirement Plans

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The newly passed American Taxpayer Relief Act of 2012 contains provisions related to a Roth IRA account. Currently, employee deferral plans, like 401(k), 403(b) or 457(b) plans, may have a Roth feature to allow employees to contribute to such plans on an after-tax basis with earnings thereon tax-free when distributed. Plans currently may allow employees to convert their traditional (pre-tax) accounts to a Roth account with respect to amounts for which an employee can elect a distribution. The new law allows employees to convert any traditional (pre-tax) amounts within an employee deferral plan into a Roth account, even if the employee cannot elect a distribution of such amount. The amount so converted would be subject to regular income tax in the year of conversion and the earnings thereon after such conversion would be tax-free when distributed. It is anticipated that plan amendments would be required to allow for the conversion. It is also assumed that an employee must be fully vested in the amounts converted to a Roth account.

From a retirement plan perspective, the new law placed no new caps or limits with respect to contribution levels.

For more information, contact ***Allison Perry***.