



*Dorsey & Company Inc. is a New Orleans based securities firm which since our founding in 1959 has been serving the needs of multiple generations of Gulf South investors.*

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## Roth IRA Conversions and Distributions

A Roth IRA is a flexible way to potentially build substantial retirement balances, to provide future tax-free income, or to help accumulate possible significant assets, free from income taxes, for your heirs. If you earn income (or are married to someone who does and file jointly), you may be able to contribute to a Roth IRA — even if you participate in a qualified retirement plan where you work or are over age 70 ½.

A Roth IRA allows you to make non-deductible annual contributions. All potential earnings growth in these accounts may be distributed from the Roth IRA income-tax-free if you are at least age 59 ½ and have had the account for more than five tax years. Your tax advisor and your Financial Advisor with our firm can help you determine whether a Roth IRA offers you advantages over a Traditional IRA.

### **IRA Conversion to a Roth IRA**

If you have funds in a Traditional IRA, you may be eligible to move those assets into a Roth IRA. Such a conversion is a taxable event,



which means you will have to report the amount that is converted as taxable income. You will pay federal, and possibly state, income tax on these sums, except amounts attributed to after-tax contributions. Generally, these taxes are due in the year the conversion takes place. Converting your existing Traditional IRA allows you to reposition your current tax-deferred IRA to a tax-free Roth IRA by paying ordinary income tax (but without the 10% penalty tax) on the entire taxable amount

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## Tax Time Tips and Reminders

Forgetting about tax deductions or credits can be costly. It's important to tell your tax preparer about your expenses, gifts and retirement plan contributions to help lessen your tax bill. Or, if you prepare your own tax return, begin gathering this information now.

Several new tax benefits were enacted in 2009 that you may overlook while preparing your tax return. Here is a "Top 10" list of tax benefits that can easily slip your mind.

**1. Making Work Pay Credit** This credit is new for 2009 so many taxpayers may not know about it. If you had wages in 2009,

complete Form 1040, Schedule M to see if you qualify for this \$400 credit.

**2. Government Retiree Credit** Also new for 2009, this \$250 credit is for qualifying taxpayers who received a U.S., state or local government pension payment in 2009. Complete Form 1040, Schedule M to determine your eligibility for this credit.

**3. Homebuyer Tax Credit** This credit was recently expanded to include existing homeowners who purchased a new principal residence as well as first-time

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## Roth IRA's

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converted. Once the rollover to the Roth IRA is completed, your tax-free earnings potential is maximized.

Currently, if your Modified Adjusted Gross Income (MAGI) is \$100,000 or less (either married filing jointly or single) you have the conversion opportunity. You cannot qualify for a conversion if you file a separate return from your spouse. **In 2010, the income cap will be eliminated, and taxpayers will be able to convert to a Roth IRA regardless of their MAGI. Unless the taxpayer elects otherwise, half of the income resulting from the conversion will be included as income in 2011 and the remaining half in 2012.**

Whether to convert to a Roth IRA can be a difficult decision, since the action may involve the current payment of significant income tax. There are four factors that are critical in determining the value of a conversion to a Roth IRA:

- **Your expected tax bracket in retirement.** The higher your expected retirement tax bracket, the greater the benefit of tax-free income in retirement.
- **Availability of funds to pay income taxes.** The benefits of a conversion are increased if the income taxes can be paid out of non-IRA assets.
- **The accumulation period.** The longer the assets in the Roth IRA can be left untouched, the greater the benefit of tax-free accumulation.
- **Investment return.** The greater the investment return on assets in your Roth IRA, the larger the tax-free accumulation and the bigger the benefit to you.

### Rules for Distribution

Roth IRAs have two types of distributions, qualified and non-qualified distributions. A qualified Roth distribution is one that meets two requirements: a five-year waiting period and age 59 ½, death, disability, or first-time homebuyer. The five-year waiting period for Roth IRA qualified distributions begins for all of the individual's Roth IRAs on January 1 of the first taxable year for which a contribution is made and ends on December 31 of the fifth year. Qualified Roth distributions are not subject to income tax or the additional 10% tax on early distributions. A nonqualified distribution is one that does not meet the requirements. Does that mean nonqualified distributions are subject to tax and the pre 59 ½ penalty? Not necessarily.

Unlike Traditional IRAs, there are ordering rules when taking distributions from a Roth. The first dollars that come out are contributions, and they can be removed at any time. Because Roth contributions are not deductible, they are not subject to tax or early distribution penalty. After the contribution basis is depleted, the next dollars distributed are any converted amounts. Converted amounts are not subject to taxation as

taxes were paid at conversion. Once a Traditional IRA is converted to a Roth, penalty-free distribution of each conversion is available after a 5-year holding period (beginning with the year of conversion) or age 59 ½ has been obtained, whichever is first. Prior to that, distributions of converted amounts are subject to a 10% penalty, unless one of the exceptions applies.

The last money distributed from a Roth is earnings. Any distributions of earnings are tax-free and penalty-free after 5 years **and** age 59½, death, disability, or first-time homebuyer. Earnings taken before the 5-year period has lapsed and the attainment of age 59½, death, disability, or first-time homebuyer are subject to ordinary income tax and a 10% tax penalty unless one of the exceptions applies.

The exceptions to the 10 percent penalty are for age 59 ½, death, disability, eligible medical expenses, certain unemployed individuals' health insurance premiums, limited "first-time" home purchase (\$10,000 lifetime maximum), qualified higher education expenses, Substantially Equal Periodic Payments (SEPP), Roth conversion, qualified reservist or IRS levy.

### The Roth IRA imposes no requirements for distributions due to age.

Unlike the Traditional IRA, which requires minimum distributions (RMDs) beginning at age 70 ½, you are not required to take distributions from a Roth IRA during your lifetime. However, your non-spouse beneficiary should start distributions the year after the year of your death if they want to take advantage of the Stretch IRA concept. If a Roth IRA owner's spouse is named as beneficiary, the surviving spouse may roll the Roth IRA into his or her name and continue the potential tax-free growth of the account without required distributions. This may make the Roth IRA the ideal tool for estate accumulation.

The way you invest for your retirement is a very important financial decision. For help in determining whether a Roth IRA should be part of your investment strategy, talk with your Financial Professional at our firm today.

\*Qualified Roth IRA distributions are not subject to state and local taxation in most states and are also Federally tax-free provided a Roth IRA has been open for at least five years and the owner has reached age

## ATTENTION IRA INVESTORS



You have until April 15, 2010 to make your IRA Contribution for 2009. The 2009 Contribution limit is \$5,000 (\$6,000 if you are age 50 or older). Talk to your Dorsey Financial Advisor to learn more.

## Planning for Retirement in Stages



While vacations and national holidays typically provide a break for everyone who would be considered a member of the working public, there is one big break ahead that's a priority on most everyone's calendar — retirement. And while it may be closer for some than it

is for others, everyone needs to make sure they are financially prepared when the time comes to take a permanent leave from the ranks of the employed. Personal circumstances make planning for retirement different for each individual, but there are several considerations that apply if you break it down by the amount of time you have left until you retire.

If you have at least ten years to go until you plan on retiring, you still have the advantage of time on your side. One of the most basic principles of investing is putting your money into different investment vehicles and then leaving it there so you can reap the benefits of long-term returns. With more than ten years to invest, you might be able to afford to take on a little bit more risk with your investments. While equities – such as stocks – have an inherent risk of losing money, they also have a history of providing significant returns over a long period of time. Just keep in mind that past performance is no guarantee of future results.

Probably the biggest advantage of getting an early start is the benefit of compounding earnings. Based on the investments in your retirement portfolio, the money you put in has the potential to earn more money for you – whether through interest payments, dividends, or other means of growth. In many cases, those earnings can be reinvested into your portfolio, further enhancing

the total value of your savings and allowing your money the opportunity to “make money” for you.

If your retirement is less than ten years away, then it's time to start making subtle adjustments to your investment mix. Hopefully, at this point you're not just getting started, but rather taking a look at how your investments are allocated and making sure they appropriately match your risk tolerance, your investment objectives and your relatively short time horizon. Because you have less time to work with, you still want to have some investments that offer growth, but you also want to begin looking at preservation of principal through fixed income alternatives such as bonds, which may provide a little more stability in your portfolio and help reduce your overall risk.

Finally, at some point you'll reach that day that you once thought was so far off. When you find yourself officially in the position to retire, you will have a whole different outlook on those funds you have set aside for just that purpose. Instead of making contributions to your retirement funds to help them grow, you'll be looking to maintain income from those investments. You'll likely begin taking distributions from them to pay for your day-to-day expenses. A thorough review of your investments will help you clearly see just how much you have saved, and how you will have to plan your distributions so you don't run short on funds during your retirement.

Financial preparation for retirement is something that is different for every individual. To make sure that you're on the right track, take the time now to assess your own situation and see what you can do to make sure you're ready when it's time for you to retire.

**Jeff Holtzclaw**, Associate Vice President and Financial Advisor.

### Snapshot of Major Market Indices - Annualized Returns as of 12/31/09

Source: Zephyr Associates

	1 Year	3 Year	5 Year	10 Year
<b>Dow Jones Industrials</b>	22.68%	-3.12%	1.95%	1.30%
<b>S&amp;P 500</b>	26.46%	-5.63%	0.42%	-0.95%
<b>MSCI EAFE</b>	31.78%	-6.04%	3.54%	1.17%
<b>Barclay's US Gov't/Credit Bond</b>	4.52%	5.81%	4.71%	6.34%
<b>60%S&amp;P500&amp;40%BC Agg</b>	18.40%	-0.67%	2.52%	2.25%





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## Tax Time Tips and Reminders

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home buyers. Complete IRS Form 5405 to determine the amount of your eligible credit. It's important to note that 2010 qualifying purchases may be claimed on your 2009 income tax return. This may allow you to reap the benefit of the credit much sooner than waiting to claim it when you file your 2010 tax return next year.

**4. Residential Energy Credit** This credit was expanded in 2009 to provide a tax benefit for certain energy efficient home improvements. To claim this credit – up to \$1,500 for qualifying improvements you made in 2009 (such as exterior doors or windows) – complete IRS Form 5695.

**5. Dependent Care Credit** Remember to gather and total your child care receipts for this credit. You can calculate your credit on IRS Form 2441.

**6. Sales Tax Deduction for New Vehicle Purchases** If you purchased a new (not used) vehicle after Feb. 16, 2009, you may be able to deduct the sales tax you paid on that purchase. This deduction is available to taxpayers even if you do not itemize deductions. If you do not itemize deductions on Form

1040, Schedule A, claim this deduction on the new Form 1040, Schedule L.

### **7. Deduction for Real Estate Taxes Paid**

The deduction for real estate taxes paid in 2009 is also available to taxpayers regardless of whether they itemize deductions. If you do not itemize deductions on Form 1040, Schedule A, claim this deduction on the new Form 1040, Schedule L.

### **8. Charitable Contribution Deduction**

Not all charities send a confirmation statement or letter of your gift when the contribution is less than \$250. Review your check records for any forgotten charitable donations.

### **9. IRA Contribution Deduction**

Have you told your tax preparer about your IRA contributions for 2009? Investors commonly forget to mention this fact unless they make the contribution near the time they actually file the tax return. A Traditional IRA contribution must be reported on your tax return, most importantly if it is not deductible.

### **10. Unemployment Compensation**

For 2009 only, the first \$2,400 of unemployment compensation is federally tax free; the remainder counts as taxable income. The 1040 instructions explain how to properly report this income in 2009.

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