

SUMMER '09

cover YOUR ASSETS

Reversing Roth IRA Conversions in 2008 – Turning Back the Clock

If you converted a traditional IRA to a Roth before mid-September of 2008, you may have been hit with an unnecessarily large income tax bill for the conversion. Why? Many investors who converted to a Roth early in 2008 thereafter witnessed as much as a 40% drop in the value of their investment portfolios before the end of last year. Whenever you convert a traditional IRA to a Roth, you are taxed on the date-of-conversion market value of the IRA account (or converted portion thereof). If the value of the new account drops subsequent to the Roth conversion, your income tax bill is still based on the date-of-conversion value, not the account's value at the end of the year or on the date your income tax return is due.

If you are one of the many investors who watched their Roth IRAs decline in value after a conversion in 2008, you still have an opportunity to turn back the clock and reduce your income tax liability for 2008. As long as you act by October 15th, you can unwind the Roth IRA conversion and switch back to a traditional IRA. This “unconversion” will eliminate the income tax liability for conversion of the account in 2008 (which may entitle you to an unexpected refund). Then, if your IRA account value is still lower now than it was in 2008 when you made the original conversion to a Roth, you could “reconvert” to a Roth IRA this year, if you satisfy the income eligibility criteria this year.

Under current law, there will be no income-based limit on a taxpayer's ability to convert a traditional IRA to a Roth next year (2010). Though there is still plenty of time for Congress to tinker with the current federal income tax laws to eliminate this unlimited conversion option in 2010,

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Family Trust Rescue: Who Needs It?

In the lead article of our last newsletter, we introduced a concept which none of our readers had heard of before: the Family Trust Rescue – a strategy for tax-free sales of appreciated assets held by a first-to-die spouse's trust after the surviving spouse's death. If you haven't read that article, we urge you to do so now. Since publication of that article, the question most frequently asked by our readers has been this: Who can actually benefit from the Family Trust Rescue? Here are the general guidelines we have developed:

When both spouses are still alive

1. Recommended for all couples whose aggregate net worth is less than \$7 million and who currently have (a) separate revocable living trusts, (b) a Will-based estate plan, (c) a joint trust which must be split into two parts after the first spouse dies, or (d) no formal estate plan at all;
2. Recommended for couples who have (1) a joint Spousal Option Trust and (2) a collective net worth between \$3 million and \$7 million;
3. Except in unusual situations, not likely to be beneficial for spouses whose aggregate net worth exceeds \$7 million;

After one spouse has died

4. Highly recommended when (a) the deceased spouse left either a life estate in property or a trust with property which has appreciated in value and (b) the surviving spouse's personal estate value is less than \$3½ million;
5. Not likely to be helpful if the surviving spouse's estate value will exceed \$3½ million unless the survivor's estate plan calls for substantial donations to charity; and
6. Not applicable if all of the deceased spouse's assets passed outright to the surviving spouse.

If you fall into scenario #1, #2 or #4 above, we encourage you to contact our office to see whether the Family Trust Rescue is appropriate for you and how much you could expect to benefit from implementation of the strategy. If your particular circumstances are similar to scenario #4 and your health is questionable, there could be some urgency in assessing whether the Family Trust Rescue is right for you because there can be no rescue after both spouses have passed away. 🏠

Reversing Roth IRA Conversions...

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there does not appear to be any movement in that direction in Congress right now.

For more details on how to unwind a needlessly expensive Roth conversion last year, we highly recommend that you contact your income tax return preparer and your financial advisor in time to beat the October 15th deadline. 🌱

I am amazed at your attention to detail and organization! Everything was set up in a way that was easiest for the client.

EM & KM, West Plains, MO

Mark Your Calendars!

The Client Update and Continuing Professional Education Seminars have been scheduled for this fall:

Columbia, Missouri
Courtyard Marriott
Friday, October 2nd

West Des Moines, Iowa
West Des Moines Marriott
Thursday, November 19th

We'll update you on legal developments that may affect your estate plan. Watch for details in our upcoming newsletters.

Email or Snail Mail?

If you are currently receiving this newsletter via snail mail, and would prefer to become a little more “paperless” by receiving it instead by e-mail, please send an e-mail message to Kim@BartonLawFirm.com from the e-mail address at which you wish to receive the newsletter or you can call our office 24/7 to leave a message with your email address and we will add you to our e-mail list. This is just one of our many efforts to become a little greener. 🌱

Funding Your Revocable Living Trust

Transferring your assets to your trust (funding your trust) can be the most important part of the estate planning process. For general recommendations regarding funding your Revocable Living Trust and keeping it properly funded, please visit our Website: www.BartonLawFirm.com. In the *Forms* tab, under *Homework*, you will find a list of actions to take in most common situations. For recommendations specific to your personal circumstance, call us at 573.446.7350 or 800.636.6187.

Outside the Assets

Personal Notes from the Bartons

- Once again, the Barton clan is heading to Kerr Lake in Virginia during late July for the Howard family reunion at Kerr Lake. (Sherry Barton was a Howard.) There will be at least 30 family members going this year – 4 generations, spanning from age 82 years to 9 months old. Interesting note: Only 12 of the 30 are male. The Howards and company sure like girls!
- On Labor Day, Brett will be running in the 50th Heart of America Marathon (26.2 miles) in Columbia, Missouri for the third time. Heart of America is one the nation's oldest and most challenging marathon races. His youngest sister (Jaira) is also planning to run this marathon for the second time.

We are very proud of having our estate planning done by a competent and friendly firm. We will pass a good word on your good work to some of our friends.

Missouri Client

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