



Utah
Retirement
Systems

Conversion of a Traditional IRA to Roth IRA

A traditional IRA may be converted to a Roth IRA. Converting all or part of a traditional IRA to a Roth IRA should be done only after careful consideration of the tax consequences.

- **Traditional IRA to Roth IRA conversions are taxable.**

When converting your traditional IRA to a Roth IRA, you must pay taxes on any traditional IRA contributions you had previously deducted from your taxes and on any investment earnings. *If you convert a large balance from your traditional IRA, the taxes may be substantial!*

- **No 10% early withdrawal penalty tax on a conversion.**

While converted amounts are considered taxable, there is no 10% early withdrawal penalty tax on any amount you convert from a traditional to a Roth IRA.

- **Conversions must be done before year end.**

URS must receive your traditional IRA to Roth IRA conversion request by December 20, in order to complete the process by December 31 of that same tax year.

Tax Reporting of a Conversion

- **Conversions must be reported to the IRS.**

For tax-filing purposes, you will receive an *IRS Form 1099-R* and an *IRS Form 5498* when a conversion takes place. You must report any amount converted from a traditional to a Roth IRA on your federal income tax return.

Things to Know

- **Tax Withholding on Conversions**

Unless you choose otherwise, the IRS requires 10% of the conversion amount be withheld by URS for federal income tax purposes. You may elect to have no taxes withheld or elect to have more than 10% withheld. *(Note: Any taxes withheld at the time of the conversion are considered a distribution and may be subject to a 10% early withdrawal penalty tax.)* No Utah state income taxes will be withheld unless you provide a Substitute W-4P tax withholding form.

- **No Limit on the Number of Conversions**

There is no limit to the number of conversions that can be made in one year. Keep in mind that the total amount of any conversions will need to be reported for federal income tax purposes.

- **Reversing a Conversion**
(Recharacterization)

If you discover you are not eligible to convert a traditional to a Roth IRA after the conversion has taken place, or if you change your mind due to the tax impact, the initial conversion may be reversed. This process is called a recharacterization. All or part of a conversion may be recharacterized and appear as if the initial conversion never took place. You cannot convert and reconvert an amount during the same taxable year or within 30 days following a recharacterization, whichever is later.

- **Consult a Tax Professional**

The rules and tax implications of converting any amount from a traditional IRA to a Roth IRA are very complex. URS suggests you consult a tax professional to find out if a conversion is right for you.