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## **IRAs Become Focus of Tax Bill**

**In a \$70-billion package passed by Congress, a provision that would widen access to Roth accounts draws fire as a giveaway to the rich.**

By Molly Hennessy-Fiske and Joel Havemann, Times Staff Writers  
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WASHINGTON — A provision benefiting affluent people who save for retirement has become one more target of critics who say a Republican tax package is skewed too heavily toward the wealthy.

The retirement provision is part of a \$70-billion tax bill the Senate approved 54 to 44 on Thursday, sending the legislation to President Bush for his expected signature. The House approved the bill Wednesday.

Debate on the retirement provision concerns a savings device called a Roth IRA. Contributions to such accounts are taxed, but withdrawals — including investment profits — are not.

Some people say that makes Roth IRAs a better deal than traditional individual retirement accounts, which allow people to put money aside tax-free but then taxes the money and investment gains when they are withdrawn during retirement.

Under current law, people with annual income above \$100,000 cannot convert traditional IRAs into Roth IRAs. The bill on its way to the White House would allow those people to do so starting in 2010, though they would have to pay taxes on the amount they converted.

Some people are eager to make the change. "I decided several years ago that if the \$100,000 limit was ever raised, as soon as the bill was signed I would jump all over this," said Bill Urban, a San Francisco financial planner.

The IRA provision has become part of Democrats' argument that the tax bill is a giveaway to the rich.

The bill would continue reduced tax rates on dividends and capital gains through 2010 rather than 2008. It would protect an estimated 15 million people from the higher tax bite of the alternative minimum tax, though that protection would last only one year.

"The average millionaire will receive an additional \$42,000 tax cut," Sen. Hillary Rodham Clinton (D-N.Y.) said of the bill Thursday, "while middle-income Americans will see an average of \$20."

Republicans say the bill would boost economic growth.

"This legislation prevents an enormous tax hike that the American people do not want and

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would not welcome," Bush said in a statement after the Senate vote. "The bill will extend policies that have helped our economy flourish. We have had 18 straight quarters of growth, including 4.8% growth in the last quarter."

Critics of the IRA conversion measure say it would do nothing to encourage additional saving and would merely bleed the Treasury of much-needed revenue.

Because people would pay taxes on the money converted, the provision would raise an estimated \$6.4 billion in tax revenue in 2011 and 2012.

"But there's a huge revenue loss in the long run" as taxpayers realize profits on their Roth IRAs without paying taxes on them, said Leonard E. Burman, co-director of the Tax Policy Center, a Washington research group.

The proposal's revenue gains would dissolve by 2018, he said, and the Treasury would give up nearly \$100 billion in expected revenue by 2049.

Sen. Charles E. Grassley (R-Iowa), chairman of the Senate Finance Committee, addressed the criticism on the Senate floor Thursday. "This isn't a budget gimmick.... It's a pro-taxpayer provision," he said.

Urban, 53, has long wanted to set up a Roth IRA but is ineligible because of income limits. Even though he would have to pay income taxes on contributions, he thinks he would profit in the long run. When it came time to withdraw the money, he would not have to pay taxes on any of it, including earnings.

Urban said he planned to convert about \$500,000 from his traditional IRA into a Roth account and expected to pay about \$200,000 in state and federal taxes.

He said conversion made sense only for those who could afford to pay the taxes from their savings. Otherwise, if they withdrew money from their IRA or sold stocks to pay for the conversion, they would be taxed twice.

Urban, a single parent, said he might turn the account over to his 14-year-old son, who could withdraw money later. Unlike a trust fund, withdrawals from the Roth account are tax-free, and unlike a traditional IRA, heirs are not compelled to withdraw money quickly.

"There's probably no better single thing I can leave to him than my Roth conversion account," said Urban, who is recommending conversion to some of his clients.

Kacy Gott, a financial planner with Kochis Fitz Wealth Management in San Francisco, is also suggesting conversion to his clients, mostly corporate executives eager to shield their deferred-compensation plans from future taxes.

Given that the plan would probably add to the federal budget deficit, Gott said, conversion could shield them from higher taxes later on.

"Better to pay the tax upfront now and reap the benefits later," he said.

Those most likely to convert their IRAs are wealthy or young investors who can allow their accounts to grow and cover the cost of taxes they would pay on a conversion, said Tom Ochsenschlager, a vice president at the American Institute of Certified Public Accountants.

"Middle-class families won't find an advantage to pay the tax" to convert, he said.

Ochsenschlager, a former CPA in his mid-60s, has a traditional IRA he would be able to convert to a Roth under the tax package, but he does not plan to. Nearing retirement, he said he wanted to be able to withdraw money when he needed it, and he wasn't sure the government wouldn't change the tax rules again.

"It will be another Congress, another administration — what's to say it's going to be there?" Ochsenschlager said of the tax protections on Roth withdrawals.



**OFG: What do you believe future tax rates will likely be? Lower? The Same? Or Higher? When asked this question the majority feel that taxes will likely be higher in the future. Why? Tradition. Inflation. The War on Terror. Our National Debt. These are all valid reasons why the government will likely increase taxes. So does it make sense to postpone paying taxes into the future when we feel they are likely to be higher? No.**

**This article clearly validates this point. However, Roth IRAs and Roth 401(k)s still have limitations and restrictions when allowing you to grow your retirement nest egg. Therefore what vehicles are available that gives us limitless Tax-Advantaged Contributions, Tax-Free Accumulation, Tax-Free Withdrawal, and Tax-Free Transfer? The answer to this question is meticulously answered in Chapter 17 of *Missed Fortune* and Chapter 9 of *Missed Fortune 101* by Douglas Andrew.**