

private client services update

October 15, 2009

THE ROTH BUSINESS OWNERSHIP PLAN (THE “ROTH BOP”)

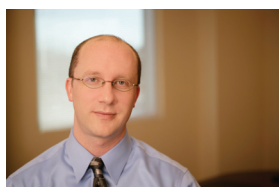
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Roth conversions have been the subject of much attention lately – with the removal, beginning in 2010, of the income limit on conversions from traditional IRAs and other retirement plans to a Roth, and the two year stretch-out of the resulting income tax liability if the conversion occurs in 2010. While there are many clear benefits from converting to a Roth IRA, there are some other less obvious opportunities available as well, such as a Roth Business Ownership Plan, or Roth BOP.

This strategy involves combining a Roth conversion with a “poor man’s ESOP” to turn a closely held business into a tax-free enterprise. The “poor man’s” version of an employee stock ownership plan is where assets held in an individual’s retirement plan account are used to purchase a business controlled by that individual. Putting a Roth conversion into the mix would work as follows:

1. individual forms a “C” corporation which adopts a Roth 401(k) plan that allows for participant investment direction;
2. individual converts a traditional IRA to a Roth IRA;
3. individual transfers the assets of the Roth IRA to the Roth 401(k) plan in a tax-free rollover;
4. individual directs the plan to purchase from the corporation the stock of the “sponsoring employer” (i.e., the new corporation); and
5. new corporation uses the proceeds from the stock sale to acquire an existing business or to start up a new venture.

The result of this series of transactions is a company owned by the individual’s Roth 401(k) account which, in turn, means that any subsequent appreciation in the value of the company, capital gains from the sale of stock in the company, and distributions received from the company accumulate tax free. And, of course, ultimate distributions to the individual after age 59 1/2 are tax free.



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