



Roth IRA Conversion Tax Estimator¹

There are a number of reasons to consider converting all or some assets in a Traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA. Foremost is the tax advantage: although you pay income tax “up front”—that is, when money leaves a retirement plan to go *into* a Roth IRA—future earnings and capital gains may be tax-free upon withdrawal. Unlike a Traditional IRA, there is no income tax on *qualified* withdrawals from a Roth.

If all of the contributions you have made to non-Roth IRA(s) over the years were tax-deductible, then you will owe income tax on 100% of the amount you wish to convert. However, if your non-Roth IRAs include a mix of both pre- and after-tax contributions, you will only owe income tax on the portion that has not already been taxed (this includes tax-deductible contributions and all earnings). Calculating this is not as straight-forward as you might think. This worksheet walks you through the process.

STEP 1 List all **Non-Roth IRAs Owned by the Individual** (include Traditional IRAs, SEP IRAs, and SIMPLE IRAs):

	Current Market Value	After-Tax Contributions
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$

STEP 2 Calculate Total Values:

A Total Current Value of Non-Roth IRAs

B Total Amount of After-Tax Non-Roth IRA Contributions

\$	\$
A	B

STEP 3 Calculate % of After-Tax Contributions: $\frac{B}{A} = \frac{\$}{\$} = \%$

STEP 4 Enter Amount You Wish to Convert:

\$

STEP 5 Calculate Non-Taxable Portion of Conversion Amount:

$\% \times \$ = \$$
STEP 3 RESULT STEP 4 RESULT

STEP 6 Calculate Taxable Portion of Conversion Amount:

$\$ - \$ = \$$
STEP 4 RESULT STEP 5 RESULT

The taxable portion of the conversion amount must be added to the IRA owner’s taxable income in the year in which the Roth conversion occurs. A Roth conversion could potentially push someone into a higher income tax bracket or subject them to the alternative minimum tax (AMT). You should consult with your tax advisor to evaluate whether this is right for your specific situation.

To end up with as much money in a Roth IRA as possible, it is best to use non-IRA assets to pay the income tax bill. Furthermore, if you are under age 59½ and use pre-tax IRA money to cover your tax bill on your conversion, you will be assessed a 10% “early withdrawal” penalty in addition to ordinary income tax on this non-converted portion.

1. The final calculation of the taxable amount of a Roth conversion is computed on IRS Form 8606 using *year-end* values for some inputs. For example, if a conversion is done in January and later that year the individual retires and rolls a 401(k) account to a Traditional IRA, this will increase the denominator (“Total Current Value of Non-Roth IRAs”) in Step #3. Since this reduces the non-taxable percentage of the converted amount, a larger portion of the converted amount will be subject to income tax.

Here is a list of other potential benefits a Roth IRA offers:

- Income withdrawn from a Roth IRA once you are retired will not affect the taxation of your Social Security benefits
- If you don't need it to meet expenses, you can leave your assets in a Roth IRA, since there are no "required minimum distributions" once you reach age 70½
- Beneficiaries who inherit a Roth IRA also pay no income tax on qualified withdrawals
- Having assets in a tax-free Roth IRA as well as in tax-deferred and taxable accounts is a way to diversify your portfolio from a tax perspective. Regardless what tax rates look like when you are retired, you will have added flexibility to choose which accounts you draw your income from so that you can minimize the tax consequences.

If you need help to determine if conversion is your best option, please contact your financial advisor, estate-planning attorney or tax professional. For questions about the conversion process, please call (800) 527-2020.

**Work with your financial advisor to create an investment plan for your Roth IRA.
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This material is being provided for educational and informational purposes only. It may not address all the tax factors that you might need to consider should you decide to convert all or a portion of your Traditional, SEP or SIMPLE IRA assets to a Roth IRA. Please consult with tax and legal professionals for specific individual recommendations and advice.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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