

Why You Should Consider a Roth IRA Conversion!



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Thousands have attended my retirement and tax planning seminars in the last 6 years and many complain about taxes. For many Baby Boomers, the majority of their savings is either in 401k plans or IRA's. They may want to consider a Roth IRA conversion.

Imagine you are a farmer in Mobridge, South Dakota, a small town where the entire population of the county is 2,000. It's early March, 2015 and you hear a knock on the door. "Hello, Farmer John, I'm from the IRS and I'm here to help you. The Federal Government is experimenting with a new tax system and here's how it works. We can go right now to your barn and take the physical weight of your seed corn that you plan to plant in April. I will then tax you on its value in 2015. If you take that choice, no matter how much corn you grow on your farm, there will be no tax after 2015 for the next 3 generations." You stand there in silence, trying to understand exactly what he has said.

The IRS man continues: "However, I know that farmers are very conservative. You probably don't want to try a tax system that is something different from what you have experienced for your entire life. If you stay with the current tax system, I will come back at the end of this year's harvest, and tax you on the value of the physical weight of the mature corn kernels, the corn cob, and the 7-foot-tall corn stalk. In fact, I will return every Thanksgiving dinner and tax you on every harvest that this farm produces as long as your family owns this farm."

After spending a few minutes considering the IRS man's offer, Farmer John remembers going to a seminar "*Secrets of the Roth and Multi-Generational IRAs*" that he attended at one of the Cave Creek libraries during January, 2015. He realizes that the physical weight of the corn seed right now is far less than the total weight of the corn plant at harvest, especially when the weight of future harvests will be taxed for the next 80+ years. He tells the IRS man: "I understand that you think that the physical weight of all this seed, held in a self-directed IRA, is worth \$300,000. If I convert this to a Roth IRA, you will tax me on \$300,000 and never come back. Over the next 80 years, this farm will produce \$300 million worth of corn crop, and my family will not have to pay any tax for 3 generations. I will gladly accept your offer. Now I finally understand what a Roth IRA conversion is all about".

P.S. Farmer Brown is in a 33.33% tax bracket and normally would have to pay \$100,000 of tax on the \$300,000 taxable income that would occur from the Roth IRA conversion. However, he remembers a strategy from a series of articles, "*Secret Advanced Tax Strategies*", found at www.DrWongInvestorGuide.com. Farmer Brown buys a \$300,000 combine that he needs for the upcoming harvest, and deducts the full price. This creates \$300,000 of tax deduction to offset the \$300,000 of taxable income from Roth IRA conversion. So, Farmer Brown pays NO TAX on his \$300,000 Roth IRA conversion. He turns to his wife and says: "The IRS man wanted me to pay \$100,000 of tax, but we farmers aren't as dumb as we look".

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