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# Deadline Approaching for Undoing a 2012 Roth IRA Conversion



***If you converted a traditional IRA to a Roth IRA in 2012, and your Roth IRA has sustained losses, you may want to consider whether it makes sense to undo your conversion--you have until October 15, 2013, to do so.***

If you converted a traditional IRA to a Roth IRA in 2012, and your Roth IRA has sustained losses, you may want to consider whether it makes sense to undo (recharacterize) your conversion. You have until October 15, 2013, to undo your 2012 conversion. (If you've already filed your federal income tax return for 2012, you'll need to file an amended return if you recharacterize.) A recharacterization can help you avoid paying income tax on the value of IRA assets that have been lost in the downturn. When you recharacterize, your conversion is treated for tax purposes as if it never happened.

For example, assume you converted a fully taxable traditional IRA worth \$100,000 to a Roth IRA in 2012. Further assume that your Roth IRA is now worth only \$60,000. If you don't undo the conversion you'll pay federal (and possibly state) income tax on \$100,000, even though the current value of those assets is only \$60,000. If you undo the conversion, you'll be treated for tax purposes as if the conversion never happened, and you'll wind up with a traditional IRA worth \$60,000--and no resulting tax bill.

If you recharacterize your 2012 conversion, you're allowed to convert those dollars (and any earnings) to a Roth IRA again ("reconvert") but you'll have to wait 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. Keep in mind that even though the amount you recharacterized, and any earnings, is subject to a 30-day waiting period, any additional amounts in your traditional IRAs are not subject to the waiting period, and you can convert all or part of those dollars to a Roth IRA at any time. If you reconvert in 2013, then all taxes due as a result of the conversion will be included on your 2013 federal income tax return.

(You can also recharacterize a 2013 Roth conversion. However, the deadline for doing so isn't until October 15, 2014.)

Whether it makes sense to recharacterize your Roth conversion depends on several factors, including the extent of the losses in your Roth IRA, and your expectations of where the markets may be headed. Your financial professional can help you decide if a recharacterization is right for you.

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