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INVESTMENTS

Roth IRA Conversion Tax Estimator¹

There are a number of reasons to consider converting all or some assets in a Traditional, SEP, or SIMPLE IRA to a Roth IRA. Foremost is the tax advantage: although you pay income tax “upfront”—that is, when money goes *into* a Roth IRA—future earnings and capital gains accumulate tax free. 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, i.e., tax-deferred, SEP, and SIMPLE IRAs):

	Current Market Value	After-Tax Contributions
<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>

STEP 2 Calculate Total Values:

A Total Current Value of Non-Roth IRAs

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

\$ <input type="text"/>	\$ <input type="text"/>
A	B

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

STEP 4 Enter Amount You Wish to Convert: \$

STEP 5 Calculate Non-Taxable Portion of Conversion Amount: $\text{ } \% \times \$ \text{ } = \$ \text{ }$
STEP 3 RESULT STEP 4 RESULT

STEP 6 Calculate Taxable Portion of Conversion Amount: $\$ \text{ } - \$ \text{ } = \$ \text{ }$
STEP 4 RESULT STEP 5 RESULT

In general, 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.

2010 Exception: Individuals who execute conversion in 2010 *only* may split the taxable portion and declare half (50%) as income when filing their 2011 income tax return, and the remaining 50% when they file their 2012 return. They will also have the option of choosing to report 100% of the amount on their 2010 return.

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.

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.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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

- Beneficiaries who inherit a Roth IRA also pay no income tax on withdrawals
- 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
- Income withdrawn from a Roth IRA once you are retired will not affect the taxation of your Social Security benefits
- 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 prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236, or visit franklintempleton.com. Please carefully read the prospectus before you invest or send money.

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