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Roth Deadlines Approach

Investors who converted Traditional IRA assets to a Roth IRA during 2008 have until October 15 to undo (recharacterize) that conversion.

You might wish to undo a Roth conversion if your 2008 income exceeded the Roth income contribution limits, if your investment value declined materially after the conversion, or to take advantage of rules available for 2010 that defer taxable amounts to 2011 and 2012.

If you undo your 2008 Roth conversion, you must wait at least 30 days to reconvert to a Roth. Also in 2010, the Roth income limit on contributions is eliminated. If you contemplate redoing your Roth conversion in the waning months of 2009, we recommend you consider awaiting the new year to do so in 2010. Balance the benefit of deferral with the risk that tax rates may escalate by 2011/12.

To undo a 2008 conversion, first verify you have an open IRA. If your Roth contains only assets converted in 2008, you may request the institution to simply redesignate the Roth as a traditional IRA. If you must transfer between accounts, inform both institutions of your intent to recharacterize the conversion. Then request to transfer the assets from your Roth to traditional IRA. Failing to provide the notice may invalidate your effort.

Your wealth.
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Aligned.

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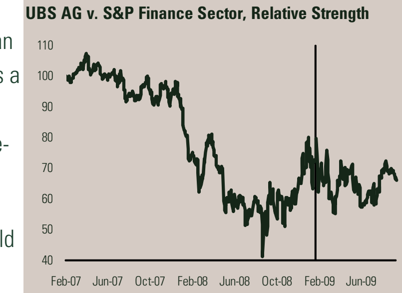
A third IRS option for Swiss accounts.



The extradition from Switzerland to the U.S. of fugitive child rapist Roman Polanski sparked uproar among Hollywood elites. They argue the case is a vindictive show of prosecutors to reach into a foreign land to persecute their "hero." We believe Polanski is a criminal and should face his comeuppance. The Hollywood argument rings hollow, as usual.

Of far greater relevance is the pursuit of U.S. taxpayers into accounts held at foreign depository institutions. In so doing, the Internal Revenue Service specifically targeted Swiss banking privacy rights. The IRS's request to relinquish information about depositors uses a "with us or against us" mindset that threatens Swiss banking giants like UBS. The IRS stance to the banks: either turn over records or suffer our wrath on your American business lines.

Switzerland's centuries old tradition of independence is framed around its legendary pledge to privacy. Laws such as the 1713 Great Council of Geneva codify secrecy rights thus protecting account holders and assets. Enhanced privacy rights shield individuals from political persecution and financial retribution, and helps Switzerland evade Europe's internecine wars. Switzerland's privacy, stability, and safety creates a comparative advantage attracting the world's wealthy to deposit with Swiss banks.

The IRS is pursuing U.S. taxpayers for alleged tax avoidance schemes that funnel cash through those Swiss banks. Such schemes have become more prevalent in the face of complicit threats to levy taxes on the rich. U.S. tax laws treat global income sources as if earned in America. To reduce their tax burden, wealthy Americans with foreign earnings deposit those earnings in foreign accounts and reinvest earnings abroad. By carefully avoiding U.S. borders, such accounts are nicknamed, "off-shore."

The IRS salvo at Swiss banks led to the February 18 agreement whereby UBS agreed to pay fines and to hand over account details of up to 300 clients to the IRS. Shortly thereafter, UBS's chief executive, Marcel Rohner, resigned. The above chart depicts that UBS has lagged the finance sector since February 18 (indicated by the vertical axis). UBS deterioration relative to other finance stocks dates to 2008 when the IRS began in earnest to intrude on Swiss privacy.

During a conference among global leaders of finance in Washington, DC on October 1—3, I spoke with Christian Dreyer, CFA, past president of The Swiss CFA Society and Managing Partner of Tertium datur AG, based near Zurich. When I asked Chris about the IRS intrusion, he offers a third option as I should expect given his firm name. Chris's suggestion could provide the information demanded by the IRS while preserving the tradition of privacy in Swiss banking. Compel citizens disclosure individually without reaching into Swiss banks' internal records. Perhaps, Chis's simple suggestion could satisfy all involved. Sometimes simple measures are profoundly effective.


Christian Dreyer, CFA

The competing parties continue to grapple with the issues. Just September 25, the Organization for Economic Cooperation and Development (OECD) removed Switzerland from its so-called gray list of uncooperative tax havens. This eased pressure on Switzerland to comply. Hawk100 will watch this matter closely for developments that may affect your wealth.

By Richard Clemens, CFA, President