



Your Taxes and Financial Matters

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Investments

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Roth IRA conversion: Act now, pay later?

Are you thinking of converting your traditional IRA, SEP IRA, SIMPLE IRA, or other qualifying retirement plan to a Roth IRA this year?

Depending on your tax bracket and financial situation, acting in 2010 could be a good idea. One reason: For conversions made this year, a change in the law provides a one-time “act now, pay later” option.

How it works. You instruct the custodian of your retirement plan assets to convert all or part of your account to a Roth during 2010. Normally, the amount you convert is treated as ordinary income on your 2010 federal income tax return — and you can choose to report it that way.

However, for 2010 conversions only, you have another alternative: You can include the conversion income on your 2011 and 2012 returns instead. You will report no income from the conversion on your 2010 return, 50% on your 2011 return, and 50% on your 2012 return.

What's the catch? As you begin your planning, you'll want to take into account estimated future tax rates. Why? Because you're deferring the income from the conversion, not the tax on that income. In other words, you'll pay federal income tax on the conversion in future years at the rates applicable to those years.

In addition to potential changes in tax law, you'll need to consider your personal financial outlook. Expected and unexpected, increases in income may put you in a higher tax bracket.

The opportunity to defer income is only one of the many factors to keep in mind as you determine whether a Roth conversion makes sense for you.

Don't overlook the Roth five-year holding requirement

The new, less restrictive rules in effect this year for Roth conversions may have you pondering whether now is a good time to convert your traditional IRA funds to a Roth IRA. While your decision involves many factors, one wrinkle to consider is the five-year holding period for converted assets.

The time limit has nothing to do with distributions of regular contributions from your Roth. As you know, you can withdraw regular contributions at any time, tax- and penalty-free, no matter your age. That's because you deposit those amounts into your Roth using money on which you've already paid income tax.

Rather, the five-year holding period comes into play when you're under age 59½ at the time you make a Roth conversion. In that case, you'll generally have to wait five years (or until you turn 59½, whichever comes first) before you can pull the “conversion assets” out penalty-free.

When you fail to meet the five-year rule, the penalty is the same 10% you'd pay if you took an early withdrawal from your traditional IRA. That's the purpose of the five-year rule, to discourage premature distributions from retirement accounts.

Once you reach age 59½, the 10% penalty disappears, though the five-year holding period for converted assets may still apply. For example, say you use the conversion to fund an initial Roth. During the first five years your new account exists, you'll pay ordinary income tax on withdrawals of the income earned from the converted amounts.

The five-year holding period can also affect your beneficiaries. For instance, if you had no prior Roth account before

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Ethical Will... Not the Only Way

If you feel strongly enough to commit your values to writing, why not discuss them with your family now?

An ethical will is essentially a letter from you to your family that articulates your values and beliefs, relates the life lessons you hope to pass on and spells out your aspirations for your family. In theory, writing an ethical will sounds beneficial and fulfilling—and the fact that more clients are asking about it reflects the growing realization that one's legacy consists of much more than the tangible things we leave to our heirs. But in practice, ethical wills may represent a missed opportunity.

Assessing Effectiveness

On one hand, writing an ethical will can be an extremely valuable exercise if your main purpose is self exploration—in other words, if the exercise is primarily directed *inward*. Indeed, many proponents of ethical wills emphasize the opportunity they afford to learn about ourselves, reflect on our lives and re-evaluate what is important to us.

If your purpose, however, is to perpetuate your values or beliefs—largely an *outward*-looking enterprise—then an ethical will might disappoint. When the document is read just before or after a death, the views expressed can seem like a parental decree. Some family members may even be tempted to wonder why, if it was so important for the author to say these things, he or she didn't share them while still alive.

Top-Down Tone

To take it one step further, an ethical will's effectiveness can be dubious even when it's circulated during a writer's life—unless it is part of another process that invites communal discussion and contributions. Ethical wills, by their very nature, speak with a single voice, so it's hard to avoid the impression that the author is trying to impose his or her values, instilling them from the top down rather than helping them take root from the bottom up.

Let's look at a real-life example of a wealthy family that discovered this while creating a mission statement for their business. The mission statement was created in the executive suite and pushed down into the employee ranks. In short, it never took—and the family quickly learned that their employees needed to feel a sense of ownership, or the mission statement would never resonate.

When the senior family members decided it would be worthwhile to create a *family* mission statement, they made the process as inclusive as possible. Every family member participated fully, weighing in on questions like what they valued deeply and what they hoped to accomplish as a family. This process sparked a rich and deeply rewarding series of intergenerational conversations.

An Alternative Solution

This family's experience not only is instructive; it illustrates that a family mission statement can be a much more effective alternative to an ethical will. At times communal conversations about family values and goals are daunting at the outset, making a simple letter seem like an easier option. But it is these very conversations that can enhance a legacy more than any letter from the grave ever will.

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Music News

By: **Marek Żebrowski and Krysta Close**

Play Polish Music when people are listening

Although Polish law requires that 33% of all songs played on all radio stations in Poland must be Polish, these required songs are often relegated to the evening hours when there are fewer listeners. In its article “More Polish music on air?” from May 17, the external service of Polskie Radio reported that “research by Nielsen Music Control on the music market in Poland showed that some radio stations play even 80 percent of the required Polish songs at night.” The primetime hours during the day tend to be filled instead with foreign songs, which commercial radio programmers consider more likely to attract audiences.

To combat this trend, Poland's Ministry of Culture and National Heritage [MKiDN] has proposed a bill that would obligate radio stations to play 75% of the required Polish music during primetime hours (between 6:00 a.m. and 11:00 p.m.). The movement seems to have support from different sectors – again from the Polskie Radio report:

“We want to magnify the importance of Polish music,” says Iwona Radziszewska from the Culture Ministry. “We support the bill. It's worth following the French example and protect the Polish market against the influx of English and American music,” says Marek Staszewski from the Association of Audio-Video Producers.

Concert Review

Możdzer at Jazz Bakery

A highly-acclaimed young Polish jazz pianist, Leszek Możdzer, was the featured performer at the Jazz Bakery in Los Angeles on Monday evening, 7 June 2010. Two solo sets—each about an hour—were heard by a select local audience in the Ivy Substation, an attractive, modern theatre space which, on this occasion, was dominated by a shiny new Blüthner grand piano.

Throughout his performance, Mr. Możdzer dazzled the audience with his considerable virtuosity and rhythmic drive. His particular approach to jazz is highly individualistic and strongly rooted in his classical piano experience. Eager to draw a more unusual variety of colors and timbres from a piano that could offer only a limited palette of sound, Możdzer skillfully employed a number of empty water glasses by placing them directly upon carefully selected areas of piano strings. This allowed him to achieve fascinating contrasts between the *ostinato* accompaniment patterns and his florid right-hand melodies.

Możdzer filled out his program with his own compositions as well as musical quotations from such Polish modern masters as Lutosławski. He also provided a timely nod to the Chopin bicentennial by including an extended insight into Chopin's famous Prelude in C minor. A medley of American Jazz standards closed this highly successful and well-received event. □



Legal

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Details of Immigration Reform Plan introduced in U.S. Congress

In late April, several leaders in the United States Congress released to the public their detailed plan for comprehensive immigration reform legislation. The plan includes a way for undocumented immigrants to apply for permanent residence, but would require them to pay penalties and back taxes.

The plan also includes various measures to strengthen border security, impose even greater sanctions on those who employ undocumented immigrants, and provisions for wider detention and removal of undocumented persons.

In order to qualify, applicants would need to register with the government within a specified time period, complete a criminal background check and pay back taxes and fines. Those found eligible will be given interim “Lawful Prospective Immigrant” (LPI) status. This Lawful Protective Immigrant status would allow them to work in the US and travel outside the US. After a number of years, an LPI will be permitted to petition for a Green Card. The waiting period for the green card for applicants would be approximately eight years, although it is not specifically enumerated in the plan.

The proposed plan will encounter significant opposition in Congress and around the country. It is supported by President Obama, but he recently said that is doubtful whether Congress “has the appetite” to tackle immigration reform in this election year. No Republicans have so far agreed to support it, and at least one Republican vote would be necessary in the Senate for the bill to even be considered for a vote.

In 2007, a similar immigration reform proposal was blocked when its supporters did not have the 60 votes in the Senate to stop a promised filibuster of the bill. This proposal would face the same obstacle.

The Speaker of the House of Representatives Nancy Pelosi of San Francisco supports the proposal, but she has said that she will wait to see if the legislation passes the Senate before introducing it in the House of Representatives.

At the press conference introducing the proposal, Senator Chuck Schumer of New York, one of the plan's authors, declared: “The broken system has produced dysfunctional outcomes for millions of people and for this entire country and our economy.” Schumer continued: “The fact that we do not have a good federal immigration system has engendered a disproportional and counterproductive response in Arizona which has passed a new law that is both ineffective and wrong hearted. That is why we must act now as soon as possible to repair our broken immigration system.”

The movement to pass comprehensive immigration reform has gathered some momentum after the recent passage of a punitive discriminatory law, targeting immigrants in Arizona. The Governor of Arizona Jan Brewer signed that bill into law in mid-April, despite calls for her to veto the bill from many national leaders. President Obama has called the bill “misguided”.

Among other things, the Arizona law requires local law enforcement officials to detain anyone suspected of being undocumented, although it provides no basis for how officials are supposed to make this determination. Many law enforcement experts believe that it will essentially compel police to discriminate based on skin color or language spoken. Even legal immigrants would guilty of a state crime, punishable by six months in jail, for failure to carry identification. □

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