

Why consider a Roth IRA Conversion now?

Wealth transfer and taxes, meaning both individual and potentially estate taxes, are important considerations when taking into account a Roth IRA conversion. And politics always seems to enter into the conversation in regards to the speculation of future tax rates, potential change to legislation and the stock markets. Let's take a look at these topics.

A primary benefit of conversion is that qualified distributions from a Roth IRA are tax-free. Roth IRAs are not subject to required minimum distributions, (RMDs) (inherited Roth IRAs do). On the other hand, designated Roth accounts (Roth 401(k)s) are subject to RMDs. (Therefore, a Roth 401(k) should be rolled over into a Roth IRA to avoid the RMD rules.)

Wealth Transfer and Taxes:

If the goal is wealth transfer, you get two benefits with a Roth IRA conversion. First, you pay the tax in the year of the conversion, this reduces your estate and potential future estate taxes and second, heirs receive an asset that is tax-free to them as they take distributions. Please note, inherited Roth IRA's do have required minimum distributions and those inherited after December 31, 2019 are required to complete withdrawals within 10 years. *(There are some exceptions, we will not address here)*

The biggest push to convert tends to be the speculation on tax rates. The question to consider is what is the tax rate now and what will it be during retirement. This is where speculation and politics comes into the picture. Future tax rates are unknown. We can assume that with our low tax rates, they will only go up, but that is an assumption. Politics always come up during election years when there are expectations on what will happen with tax rates and tax legislation. People speculate on what the market will do depending upon which candidate wins.

2020 may be a year to convert, if the value of the assets are low and you expect them to appreciate. The amount converted, therefore subject to tax, would be lower.

Other tax aspects to consider; does the increased income from the conversion affect your Qualified Business Income deduction, taxable social security, potential phase out of deductions and credits? Please consider all of these when making a decision and feel free to reach out to us if you have specific questions on these topics.

In Summary:

If you proceed with a Roth IRA conversion, assure you are eligible and do a trustee-to-trustee conversion. Plan for the additional tax due. We would be happy to help you make an educated decision on this tax strategy. Please contact us if you are interested.