

4 Savvy Roth Conversion Tips

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Funding a Roth IRA now creates an opportunity for tax-free income during your retirement years. But there might be an upfront cost, and for many, affordability becomes the issue.

There are two primary ways to fund a Roth IRA: regular Roth IRA contributions, which are made with funds that have already been taxed, and Roth conversions. This article provides tips that can be helpful with your Roth conversion decision.

Roth Conversion Defined

With a Roth conversion, assets are moved from a Traditional IRA, SEP IRA, or SIMPLE IRA to a Roth IRA. Assets can also be moved from an employer-sponsored retirement plan such as a 401(k), pension plan, or 403(b).

Any pretax amount of a Roth conversion is included as income for the year in which the conversion is done, and the income tax on this amount is due by the Roth IRA owner's tax return due date.

Tax Savvy Roth Conversion Tips

If you are considering a Roth conversion this year and have concerns about being able to pay any income tax that might be due, consider the following tips.

1. Look for tax-free conversion opportunities

If you have after-tax amounts in an employer-sponsored retirement plan, such as a 401(k), those amounts can be converted to your Roth IRA tax-free.

When making your withdrawal request, include explicit instructions to have the after-tax amounts rolled over to your Roth IRA. Alternatively, the after-tax amount can be sent to you and deposited to your Roth IRA as a conversion within 60 days of receipt. Any pretax amount can be sent to a Traditional IRA or other traditional retirement account for continued tax deferral.

Important: There are other issues to consider when rolling over assets from an employer plan to an IRA. Please contact your advisor to perform a rollover review.

2. Manage income tax through a conversion split

You can choose to convert the entire balance of an account or just a partial amount. This allows you to manage the income tax impact of Roth conversions by converting amounts over more than one year.

For example, assume that your IRA balance is \$100,000 and you want to convert that amount to a Roth IRA. You could convert a portion of it this year, and split up the balance into conversions done over the next several years.

3. Offset tax losses and deductions

Consult with your CPA to identify any year in which you might be able to offset income tax that would be due on a conversion with tax losses and deductions. For example, if you're operating a business that has a net operating loss, that could be used to offset income tax that might be due on a Roth conversion.

4. A Roth suitability assessment is crucial

Despite the obvious benefit of providing an opportunity for tax-free income during your retirement, there are other factors that could determine if a Roth conversion is a suitable tax strategy for you.

Before deciding whether or not to perform a Roth conversion, have your CPA perform a Roth suitability assessment.

Consider that conversions done in 2018 and after cannot be recharacterized. Which means once the conversion is done, you are stuck with it.

Get Your CPA Involved

Deciding whether to do a Roth conversion is one of the most important decisions you can make with your tax-deferred retirement accounts, as it could determine how much income tax would eventually be paid on those amounts.

Ultimately, it is your CPA that would help you to determine if and when a Roth conversion is suitable for you.

If you're considering doing a Roth conversion, make an appointment with your CPA.

Denise Appleby is CEO of Appleby Retirement Consulting, Inc., a firm that provides a wide range of retirement products and services to financial, tax, and legal professionals. The firm's primary goal is to help prevent mistakes from being made with retirement account transactions; and, where

possible, provide solutions for mistakes that have already been made. Their products include IRA guides and other IRA educational tools for financial and tax professionals.

Denise is also creator and CEO of the consumer education website retirementdictionary.com.