HILL INVESTMENT GROUP

Take the long view

Roth Conversion Overview

What is a Roth conversion?

A Roth conversion refers to the transfer of funds from a traditional IRA or 401(k) (tax-deferred) to a Roth IRA (tax-free). These funds are being withdrawn from a tax-deferred account, and are considered taxable income in the year of the conversion. They will be taxed at ordinary income rates.

Who should consider a Roth conversion?

Clients that meet the following criteria should consider a Roth conversion:

- Taxable assets available to pay taxes incurred by the conversion.
- There are sufficient assets in taxable and IRA accounts to meet living expenses for the next 20+ years.
- Tax rate in the year of the conversion is reasonable.

What are the benefits of a Roth IRA?

- Investments grow tax-free and no tax is due when funds are withdrawn.
- Unlike traditional IRAs, Roth IRAs do not have withdrawal requirements until the account is transferred to one's non-spouse beneficiaries.
- The longer the Roth dollars are allowed to grow tax-free, the greater the benefits to the owner and their beneficiaries.

Downsides of Roth Conversion

- Assets converted to a Roth IRA may not be withdrawn for five years starting in the year of conversion.
- If your tax rate will be lower in the future, a Roth conversion may not be for you.

Why consider a Roth conversion now?

- Investment values are lower which allows for conversion of a greater percentage of assets at the same cost.
- Tax rates lowered in 2019 and are likely to be higher in the future.
- Taxable income from conversion may be offset by other planning strategies (i.e. charitable contributions).

Summary

Having a portion of one's tax-deferred dollars converted to a Roth (tax-free dollars) provides tax diversification and flexibility on when to withdraw these dollars.