

Roth Conversion: Factors For and Against Conversion

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Factors Favoring Conversion¹

- Taxpayer expects to be in a higher tax bracket during retirement than at the time of conversion.*
- Taxpayer has made significant after-tax contributions to his or her Traditional IRA.^{2*}
- Taxpayer will pay the tax upon conversions with funds from outside the IRA.^{3*}
- The taxpayer is young.
- Taxpayer will not need the IRA funds during retirement and would like to pass them on to heirs.*
- Taxpayer expects that his or her estate will be subject to federal estate taxes.*
- Taxpayer wishes to create tax diversification to retain more control over future tax brackets.
- Roth distributions are expected to be tax-free for state income tax purposes.
- Roth conversion will not trigger a tax on the social security benefits.
- Taxpayer will be able to lower their taxable income in the year of conversion.

Factors Against Conversion

- Taxpayer expects to be a lower tax bracket during retirement.*
- Significant state income taxes will be due upon conversion (of course federal taxes may be due as well).
- Taxpayer has only made pre-tax contributions to his or her Traditional IRA.
- Taxpayer will pay the tax from the IRA funds (and even worse, the client is under 59½).*
- Significant fees and surrender charges will be incurred upon conversion.
- Taxpayer believes that major tax reform will be enacted that will lessen the benefits of conversion.
- Conversion will trigger a tax on social security benefits.
- Taxpayer needs to sell appreciated assets in order to pay tax upon conversion.
- Taxpayer who has a child in college and whose financial aid would be negatively impacted by conversion.*
- Taxpayer who lives in a state which does not provide creditor protection to Roth IRAs (even though Traditional IRA is afforded protection).

*Indicates a more important factor in determining whether or not to convert.

Please consult with your tax or financial advisor for the application of these principals to your specific situation and assist you in planning for this new exciting retirement opportunity.

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¹ This opportunity may not be right for everyone. The cost of having to pay taxes now may outweigh the benefit of tax-free qualified distributions in the future. For a distribution from a Roth IRA to be a tax-free qualified distribution, the distribution must occur after the 5-tax-year holding period for Roth IRAs and satisfy one of the other requirements (e.g., occur on or after the Roth IRA owner attains age 59 ½).

² Generally, all the traditional IRAs an individual owns are treated as one IRA under the distribution rules and only a pro-rata portion of any distribution (or deemed distribution) will be treated as coming from non-deductible contributions, so an individual cannot simply elect to convert only his or her nondeductible IRA contributions even if all the individual's non-deductible contributions are in one IRA.

³ For conversions involving annuity contracts, the taxable amount may be more than you would otherwise expect because the taxable amount may be based on more than just your account value at the time of conversion.