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Roth IRA Conversions Should You Convert?

The IRS has recently removed income limits to allow anyone to convert their traditional IRA assets to a Roth IRA. In short, when you make a Roth conversion, you pay the deferred taxes on your traditional account in exchange for the tax-free income and other benefits of a Roth IRA. For some, converting can mean a larger retirement nest egg and valuable estate planning opportunities. For others, the tax price of a conversion and other factors can outweigh any benefits. Following is a brief discussion of some of the key factors to consider when deciding if a conversion makes sense.

Your Tax Rate in Retirement

If you'll be in a higher tax bracket in retirement than you are today, the taxes you would pay on the conversion would probably be less than the taxes you would pay on withdrawals from your traditional account in retirement.

The Conversion Taxes

You will have to pay ordinary income taxes on any pre-tax contributions and investment earnings included in your conversion. You should not convert if you cannot pay these taxes from sources other than your retirement accounts. This is because taxes will also be due on the amount you withdraw to pay the conversion tax and you will lose the benefit of tax-deferred growth on that amount. If you're under age 59½, you'll also have to pay a 10% federal penalty, as well as possible state penalties on any withdrawal used to pay conversion taxes.

Estate Planning

Because a Roth IRA has no required minimum distributions (RMDs) at age 70½, it has the potential to grow larger than a traditional IRA. In addition, your heirs will not have to pay income taxes on money they withdraw from their inherited Roth IRA.

Is a Roth Conversion Right For You?

With serious tax and financial implications, a Roth conversion should only be made with the help of an experienced professional. I would be happy to provide you with a personalized Roth conversion analysis to help you determine if a conversion would benefit you. Simply call or email me at the contact information above to arrange a convenient time.

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"To Roth or Not to Roth"

Traditional and Roth IRAs offer different features and benefits. Below are a few things to consider when deciding which kind of IRA is best for you.

	TRADITIONAL	ROTH
Contributions	Tax deductible if IRS qualifications are met.	Not tax deductible.
Withdrawals	Withdrawals taxed as ordinary income. Subject to additional 10% penalty if taken before age 59½.	Contributions can be withdrawn at any time without taxes or penalties. No taxes or penalties on withdrawals of earnings if taken after age 59½ and account is at least five years old.
Required Minimum Distributions (RMDs)	RMDs must begin at age 70½.	No RMDs required.



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