TAX TIP TUESDAY – SHOULD YOU CONVERT TO A ROTH IRA?

If you have a significant balance in your traditional IRA, you may want to consider Roth IRA conversions. This can be done gradually over several years to manage tax brackets. If done properly, a multiyear approach could allow you to convert a sizable portion of your savings to a Roth IRA while limiting the tax impact. Keep in mind, withdrawals from your Roth account are tax free including both your contributions and earnings.

A suitable time to implement a Roth conversion is at retirement while your earned income decreases but before you are required to take your RMD which may potentially increase your income.

Conversion amounts will be taxable in the year the conversion taxes place. Another issue to be mindful of is making Roth conversions when you are close (within two years) to filing for Medicare and Social Security. A Roth conversion could increase your Medicare premiums and the taxes you pay on Social Security benefits.

If you are considering a Roth conversion, the payment of taxes should come from funds outside the IRA to maximize tax free growth. Avoid using the IRA funds for taxes to prevent early withdrawal penalties and reduce converted amount.

Roth conversions cannot be reversed so be sure it fits your long- term plan.