

Important tax planning opportunity! IRA Conversions to a ROTH IRA

Converting an Individual Retirement Account (IRA) to a ROTH IRA is a great tool to reduce taxes in the right situation. If you were always over the limits to make ROTH IRA contributions, this can be your chance to take advantage of this type of retirement account. If you already have a ROTH IRA, this could be your opportunity to significantly increase your balance.

Most IRA contributions are pre-tax contributions that become taxable income when the funds are withdrawn from the account. In contrast, ROTH IRA contributions are post-tax contributions which are completely tax free (including the related income) if certain requirements are met.

The benefits of a ROTH IRA:

- There is no required minimum distribution at age 70 ½
- It can be used an estate planning tool
- Withdrawals are tax-free

ROTH IRA conversions are most beneficial if:

- The converted ROTH funds are not needed for at least five years
- There is access to non-retirement funds to pay conversion taxes (if any)
- Funds are not needed for current living expense (you may want to transfer to heirs)
- You expect to be in the same or a higher tax bracket during retirement

When a Traditional IRA is converted to a ROTH IRA, taxes are due based on the funds transferred to the ROTH IRA at your current tax rate.

KROST Insight - To eliminate these additional taxes, it would make sense to do a conversion during a year of low income or offset the additional income with accelerated deductions. This will reduce the potential tax burden now and save taxes in the future on the withdrawals.

In addition, there is also an opportunity for high income individuals to take advantage of what is called a "Back Door Roth". This would allow for effective Roth contributions that would otherwise be phased out due to higher income limitations. Though complicated, it may be worth a short consultation to see if it would be beneficial to your long-term wealth planning.

A ROTH IRA conversion needs to be completed by December 31, 2017. Please reach out to us if you have any questions or want more information regarding this process.

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