Your Guide To Roth IRAs

Conversions And Advanced Tax Planning

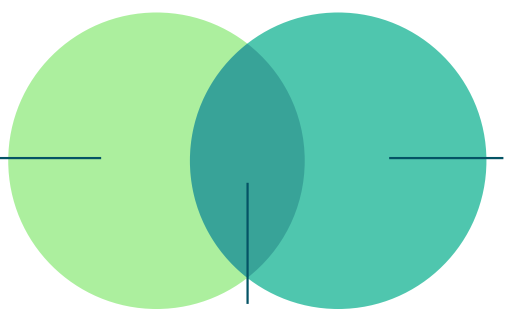
What Is A Roth IRA (Individual Retirement Account)?

Firstly, an IRA is an investment account that you own that typically holds stocks, bonds, mutual funds, ETFs, and more. It is structured and regulated with limitations and tax advantages for using the account to grow a fund that is then used to provide you income in retirement. The Roth IRA is a tax-advantaged retirement account, but some of its tax advantages are structured differently than the Traditional IRA.

- As with the Traditional IRA, you need to be at least 59 ½ to withdraw monet without penalty. You'll also need the account to have been open for 5 years to avoid owing the 100% penalty fee.[1]

The Roth IRA Compared To A Traditional IRA

- A key difference is that Roth IRA contributions are made after tax, so distributions from the account are tax-free after the age of 59 ½.
- Your contributions are taxed when you put them in, but your withdrawals are not subject to taxes.
- There are no Required Minimum Distributions (RMDs).
- You can hold your Roth IRA for as long as you'd like, regardless of your age, giving you more control over your retirement plan and income strategy.[2]



Traditional IRA

- Required Minimum Distributions
- Withdrawals Are Taxed
- No Income Limits For Making Direct Contributions

Roth IRA

- No Required Minimum Distributions
- Qualified Withdrawals Are Tax-Free
- Income Limit For Direct Contributions
- Penalty-Free Withdrawal After 5 years[2]

Both

- Tax Advantage
- Annual Contributions Limit
- Withdraw Penalty-Free After Age 59 ½

GetRetiredStayRetired.com

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

Why Roth IRAs?

Rather than waiting to pay the unknown tax rates of the future, you could pay taxes at today's rates by contributing to a Roth IRA. In short, if taxes are "on sale," do you want to take advantage?

Right now, we may be enjoying relatively low tax rates in the US: In 1944, the highest income tax rate was 94%, and in 1978, the maximum capital gains tax rate was almost 40%.[3,4] It's not impossible that we could see higher income taxes and capital gains taxes, as well as new taxes, in the future.

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

What If You Don't Qualify To Contribute To A Roth IRA?

Roth IRA Income Limits

If your income is over a certain amount, you aren't eligible to contribute directly to a Roth IRA: Your Modified Adjusted Gross Income (MAGI) must be under $161,000 for single tax filers and under $240,000 for married couples filing jointly to contribute to a Roth IRA for tax year 2024.[5]

Roth IRA Income And Contribution Limits

The Traditional IRA and Roth IRA contribution limit for 2024 is $7,000 for workers under age 50 and $8,000 for workers aged 50 and older.[5]

Roth IRAs For Couples

Since you can only contribute earned income to a Roth IRA, married people who aren't working for income may think they can't contribute to a Roth IRA or a Traditional IRA. However, a working spouse may be able to contribute on behalf of their non-working spouse if they file taxes jointly.

- Spousal IRAs are not joint accounts; they are two separate Roth IRAs set up in each spouse's name.
- If the working spouse also contributes to his or her own Roth IRA, their earned income must equal or exceed the total amount contributed to both IRA accounts.
- Note that spousal IRAs are still subject to the income limits for Roth accounts and contribution limits.

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

The Roth IRA Conversion Process

You have the option to convert funds from a Traditional IRA, 401(k), or similarly qualified retirement account into a Roth IRA, no matter how much money you make. This is sometimes referred to as a **"Backdoor Roth IRA."**[6]

So, How Does A Backdoor Roth IRA Conversion Work?

In this case, you would pay tax on the funds converted and then be able to withdraw them tax-free later.

The money can't be withdrawn penalty-free until five years after it is converted and typically not until age 59 ½.[2]

Consult a professional before converting part or all of your Traditional IRA or 401(k) to a Roth IRA. There could be certain times that are more optimal than others, and you may be wondering how much to convert.

However, there's a question that looms over this process: the **tax implications**. By cashing out your traditional IRA, you will be paying those taxes you deferred all in that year, launching you into a higher tax bracket. That may slash the savings you worked hard to build! However, the partial Roth IRA conversion helps ease your tax burden.

The Partial Roth Conversion

A partial Roth Conversion is a strategy where you transfer only part of your Traditional IRA holdings to a Roth IRA so that your taxable income doesn't launch you into a new tax bracket, then you repeat this each year until you've made a full conversion to the Roth account. This can help keep your tax burden in the bracket that makes the most sense for your financial strategy.

However, after executing the backdoor Roth conversion, if your taxable income remains above the Roth IRA limit for the next year, you won't be able to make regular contributions to the Roth at that time. So, make sure you carefully strategize your income levels, retirement timeline, and overall financial strategy so that you can execute these strategies without paying more than you should in penalties or taxes.

In addition, there's one more option to explore that may help you ease your tax burden: the Qualified Charitable Distribution (QCD).

"So, make sure you carefully strategize your income levels, retirement timeline, and overall financial strategy so that you can execute these strategies without paying more than you should in penalties or taxes."

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

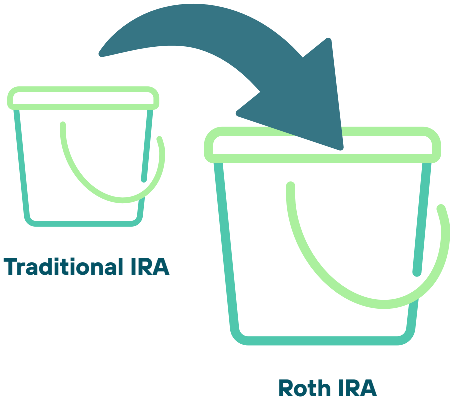
The QCD Option

You can also do a partial Roth conversion by taking your Required Minimum Distributions (RMDs) from a different type of IRA and making QCDs to ease your tax burden for a given year.[7]

- A QCD is a donation to a verified charity organization.
- Donating your RMDs as a QCD renders the RMD amount non-taxable, effectively reducing your income if you'd like to stay in a certain tax bracket.
- Many retirees who receive large RMDs from a non-Roth IRA, such as a Traditional IRA or SEP IRA, and hit their Roth IRA contribution limit may opt to make QCDs to reduce their taxes for a given year.
- Note that making QCDs is an option only if the donator is over the age of 70½ and the dollar amount does not exceed $100,000. And, as of the SECURE Act 2.0, the $100,000 dollar limit will be indexed to inflation updated on an annual basis.[8]

A Roth conversion could be one way to plan for the tax rates of the future. There are many factors to consider:

- Your current income levels and tax situation.
- What you think your future income and tax situation will look like.
- What tax policy changes end up happening.
- Your estate plans.



P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

Potential Estate Planning Advantages To The Roth IRA

In 2019, the original SECURE Act eliminated the option for non-spouse beneficiaries, such as your offspring, to take RMDs from an inherited Traditional or Roth IRA based on their own life expectancy. Before its elimination, the 'stretch IRA' option allowed inherited IRA beneficiaries to take RMDs over the course of their own life instead of the original owner's, effectively "stretching" the life of the IRA. Because taxes are deferred for traditional IRAs, this strategy was mainly used for those types of IRAs.[9]

Now, most non-spouse Traditional and Roth IRA beneficiaries must deplete accounts within 10 and 5 years, respectively, by taking distributions. This means that:

- You could potentially miss out on years of tax-free growth with a Roth IRA.
- You could face an increased tax burden if you are forced to withdraw more than you planned to from an inherited traditional IRA.

A Roth IRA Can Be A Valuable Tool In An Estate Plan

- Distributions are generally not taxed for beneficiaries.
- The money can continue to grow tax-free while it's in the account.[10]
- You can create an estate plan and figure out which of your loved ones should inherit which assets based on their own tax situations and how inherited assets can be taxed.

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

Don't Wait

Your Ability To Do A Roth Conversion May Not Last

While anyone can convert money from a Traditional IRA to a Roth IRA now, that could change. Laws pertaining to retirement and retirement planning strategies can change, which means there's no guarantee that the Backdoor Roth IRA strategy will always be available to you in the future.

So, it's important to consult with a professional before making any big decisions that could impact your tax situation. We at VestGen Wealth Partners can help you review the dos and don'ts of Roth IRAs and create a strategy that suits you. Get in touch to get started at **vestgen.com** or call us at **(833) 964-7526** today!

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

Sources

1. https://www.investopedia.com/roth-ira-withdrawal-rules-4769951
2. https://www.investopedia.com/retirement/roth-vs-traditional-ira-which-is-right-for-you/
3. https://fred.stlouisfed.org/series/IITTRHB
4. https://www.taxpolicycenter.org/statistics/historical-capital-gains-and-taxes
5. https://www.cnbc.com/2023/11/01/irs-401k-ira-contribution-limits-for-2024.html
6. https://www.investopedia.com/terms/b/backdoor-roth-ira.asp
7. https://www.investopedia.com/qualified-charitable-distribution-qcd-5409491
8. https://www.forbes.com/sites/leonlabrecque/2023/03/30/secure-20s-new-rule-on-irasand-charity-can-really-pay-off/?sh=1336ef197278
9. https://www.investopedia.com/terms/s/stretch-ira.asp
10. https://www.investopedia.com/inheriting-roth-ira-from-parent-5220471

SWG 3323232-0124

GetRetiredStayRetired.com

P (847) 907-9600 1605 Colonial Parkway, Inverness, IL 60067 | 2001 Butterfield Rd, Suite 160, Downers Grove, IL 60067

Disclosure

This information is provided as general information and is not intended to be specific financial guidance. Before you make any decisions regarding your personal financial situation, you should consult a financial or tax professional to discuss your individual circumstances and objectives.

Securities offered by Registered Representatives through Private Client Services, Member FINRA/SIPC. Advisory products and services offered by Investment Advisory Representatives through VestGen Advisors, LLC, a Registered Investment Advisor. Private Client Services and VestGen Advisors, LLC are unaffiliated entities.