ROTH IRAs

It Doesn't Have To Be A Young Person's Game

PREFERRED TRUST

If you aren't earning much, saving in a Traditional IRA, pre-tax doesn't help you save much in taxes. Conversely, doing a Roth IRA conversion when you are earning a larger salary doesn't make sense to a lot of people who are looking at retirement in the near future, when their tax rates will plummet. Why pay higher taxes when relief is available through a Roth IRA conversion?

Like everything else there are plenty of exceptions available in the IRS tax code. Here are 5 situations when converting a tax-deferred Traditional IRA to a tax-free Roth IRA may make paying the tax privilege to do so a bigger advantage for your long-term financial plan.

Reason 1:

YOU WANT TO LEAVE A LEGACY

If you want to leave a substantial legacy to your children or grandchildren a Roth IRA may help you meet that goal over time. Your heirs will be required to take a tax-free distribution throughout their life on the earnings of the Roth IRA as a beneficiary. So basically, your heirs will receive an annual tax-free bonus to remember you by. In this situation the primary goal is to position the Roth IRA to provide tax-free income for heirs, not to relieve a personal tax burden.

Reason 2:

YOU WILL FACE HIGH RMDs IN RETIREMENT

If you are over 59 ½, but younger than 70 and you have a Traditional IRA, you might want to "top off your tax bracket" with a Roth IRA conversion. This is particularly true if you don't think you will need that money in retirement, but will be forced to take required minimum distributions (RMDs) once you reach age 72.

For instance, a couple is at the upper level of the 15% tax bracket in 2016 if they have adjusted gross income (AGI) of $75,300. If their actual income is less than that they could convert the difference from their Traditional IRA at this lower tax rate up to the cap. If done every year until they are required to take RMDs, they can substantially lower those RMDs, as well as the taxes they'll owe on their nest egg going forward.

Reason 3:

YOU PLAN TO MOVE WHEN YOU RETIRE

Are you thinking of retiring to a high-tax state like New York, New Jersey or California? Are you currently living in a state where taxes are lower? If you answered yes to these two questions, converting at least part of your Traditional IRA to a Roth IRA before you make the move might make sense.

If you live or plan to retire to Florida or one of the other 8 states (Alaska, Nevada, Tennessee, Texas, Washington, Wyoming, South Dakota, and New Hampshire) where there is no state tax, the reasons for converting a Traditional IRA to a Roth IRA diminish. Plus some states don't tax retirement income or Social Security income. Different states treat Roth IRA conversions differently, so get expert advice before you make a Roth IRA conversion.

Reason 4:

YOU FEAR THE WEALTHY WILL LOSE SOCIAL SECURITY

Dozens of solutions to save the Social Security program have been proposed over the years. Means testing has been suggested by both political parties as one way to manage the program's shortfall. Medicare is already means-tested, with higher earners paying more. If you believe this is a solution likely to be adopted, you might want to convert to a Roth IRA because unlike Traditional IRA income, Roth IRA income doesn't count for Medicare surcharges and probably wouldn't count for any possible Social Security surcharge.

Of course, no one knows for sure how politicians will try to "fix" Social Security, and whether it will affect higher earners more than anyone else. So pull out your crystal ball, because the word on the street is that it could happen.

Reason 5:

YOUR TAXABLE INCOME WILL BE LOW THIS YEAR

Let's say you are in the U.S. military and will be serving in a combat zone. Most of your pay will be tax-exempt because of your employment. This might provide the perfect opportunity to convert some of the money in your Traditional IRA to a Roth IRA without owing a lot of taxes.

This isn't the only circumstance where you might have tax-free income, but it is the most common one. Other low-tax circumstance could include a job change or job loss, being in early retirement and living off taxable investments such as bonds that generate little taxable income, or having high medical bills expenses.

If you are interested in learning more about converting your current IRA to a ROTH, you can contact Preferred Trust Company at 702.990.7892 or info@ptcemail.com and one of our representatives will be able to assist you.

Preferred Trust Company does not provide tax advice and recommends you speak with your CPA or a tax specialist regarding Roth conversions