ROTH CONVERSION

A Roth Conversion allows you to convert traditional (pre-tax) IRA money into nontaxable Roth IRA money. The primary benefits of a Roth IRA are that your money grows tax-free and withdrawals are tax-free. In addition to tax-free growth and income, Roth IRA has the potential to benefit your retirement and legacy planning.

Converting an existing traditional IRA or another retirement account to a Roth IRA can make sense in many situations, but not all the time. It depends on your unique situation, your income, your tax bracket and the financial goal you are trying to accomplish. When you convert another retirement account to a Roth IRA, you will have to pay income taxes on the converted amounts. It can make sense to pay these taxes now to avoid more taxes later, but that depends on your current tax bracket compared to your potential future tax bracket.

When it may make sense to convert to a Roth IRA:

- You had a lower income year.
- You will likely be in a higher tax bracket than you are now.
- You have financial losses that can off-set tax liability from the conversion.
- You do not want to begin taking distributions at age 72.
- You are moving to a state with higher income taxes.
- You want to leave a tax-free inheritance to your heirs.

When it may not make sense to convert to a Roth IRA:

- You are going to have an extremely low income in retirement.
- You do not have extra money for the conversion.
- You may need the money sooner rather than later.

As of this writing you are no longer permitted to "recharacterize" or undo a Roth IRA conversion.
Deadline: December 31, 2020 for the 2020 tax year.

When converting pre-tax dollars, keep in mind:

- Generally, converted assets in the Roth IRA must remain there for at least five years to avoid penalties and taxes.
- A distribution from a Roth IRA is tax-free and penalty-free provided that the five-year aging requirement has been satisfied and at least one of the following conditions has been met: you reach age 59 ½, die, become disabled, or make a qualified first-time home purchase.
- If you withdraw money from a converted Roth IRA within the first five years after you do the conversion, you will have to pay the 10% penalty on any withdrawals. That includes withdrawals of the amount you initially converted - even though you have already paid taxes on that amount.
- RMDs are not required during the lifetime of the original owner.

BOSTON FINANCIAL MANAGEMENT
Boston | Portland, ME | Cape Cod & Islands
617-338-8108 | inquiries@BFMinvest.com | www.BFMinvest.com