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| Tax Tips to Reminder Clients That You are the Center of Their Financial Universe  *Part 1 – ROTH IRA Conversions*  by Frank Warner, CPA (with The Leaders Group since 2011)   As an advisor, our clients rely on us to help them plan for their financial future as well the future of their families. One of the major costs facing clients in that planning are taxes. Since the current tax laws have many favorable features that could go away at the whim of Congress, here is an item you should be reminding clients of before it possibly disappears:   Consider Roth IRA Conversions   Whether it be from normal distributions, RMDs, or inheritance issues, any client with assets in a traditional IRA is facing a tax bill sooner or later. And as those assets continue to grow, so will that tax bill. Tax rates now are the lowest they have been since the early 1980s. All clients should give considerable thought to converting either part of or all of those assets from traditional to Roth IRAs. Although each client's situation is unique, the following guidelines are a good place to start:   Time is the Key: The longer those assets sit in the Roth, the more conversions make sense. For younger clients with many years until retirement, conversions are a no-brainer. But often older clients think they are too late in the game to convert to Roth. Remember: the real issue is not how old you are but rather how long you think it will be before you will begin using that money. And for senior clients who have enough income streams outside of IRAs to cover their expenses (pensions, social security, annuities, etc) and will probably be leaving most of their IRA assets to beneficiaries, Roth conversions could also make sense. For example, assume a client age 60 in the above situation who lived until 85 had done a Roth conversion at age 60 and never needed those funds. Those assets could have grown tax-free for 25 years and then, under current law, grown tax-free for another 10 years in the beneficiary's name. That's 35 years of growth which should be more than enough time to cover the tax cost of the conversion.   Make use of current tax brackets: A tax-efficient way to do conversions is to look at the tax bracket the client is currently in and will be expected to be in during the foreseeable future and convert enough from traditional to Roth to get them to the top of that bracket. For example, married clients with taxable incomes at $321,000 or less are in the 24% bracket for their marginal income. Look back in history and see when $321,000 was ever taxed at just 24%!!! For younger income-earners with lots of time for the assets to grow, converting even at those rates often makes sense. For retired clients over 70 1/2 and who are having to take RMDs, rethink RMD to mean Required MAXimum Distribution instead of Required MINimum Distribution. With the 12% tax bracket for married couples ending at $79,000 of taxable income, sometimes it makes sense to take enough IRA distributions to force their income to that level in order to not let that cheap tax bracket go to waste.   Speaking of RMDs: One super advantage of Roth IRAs is that they have no RMDs. All tax brackets, credits, and deductions are based on calculations that start with a client's Adjusted Gross Income (AGI). With Roths, none of those distributions are counted in determining AGI meaning clients can potentially have a significant income stream while still keeping themselves in low tax brackets and not losing valuable tax credits and/or deductions.   Turning lemons into lemonade: As of this writing, the Coronavirus is rattling the markets and they are down about 5% from just two days ago. And as unsettling as that may be, it is a good time to consider converting traditional to Roth because the taxes just got cheaper. As an investment advisor, doing that tax calculation may not be in your wheelhouse. But what you can do is call clients and suggest they have their tax advisor run that calculation to determine the potential savings of acting now during a down market. Not only will your client save taxes, but they will see that your are reaching out to help act in their best interest when there is no "sale" involved. |