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Introduce clients to the potential benefits of a Roth IRA

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The Roth IRA can offer an advantage over other retirement vehicles, potentially providing tax-deferred growth and tax-qualified withdrawals.* In addition to potential tax-free withdrawals, Roth IRAs do not have a required minimum distribution (RMD) while the Roth IRA holder is living. Finally, beneficiaries who inherit a Roth IRA that has been established for at least five years may be able to withdraw the earnings free of income tax.

Work around income and contribution limits

Roth IRAs have strict income guidelines that limit the number of individuals who can make contributions. In addition to the income guidelines, in 2025 Roth contributions are capped at $7,000 per year for those younger than age 50. For clients over age 50, Roth IRAs allow an additional $1,000 “catch-up” contribution. However, there are no income or contribution limits for a Roth conversion.

A Roth conversion is essentially a rollover of dollars from a traditional IRA to a Roth IRA. The amount converted is subject to income tax the year in which a Roth conversion takes place, and conversions are tracked on a calendar year basis. Roth conversions are not an “all or nothing” proposition. A partial Roth conversion allows the taxpayer to control the amount of additional annual income they’re generating through the Roth conversion.

Evaluate the tax implications

Clients should consider several factors before completing a Roth conversion.

- Where will the money come from to pay the additional income tax due? Withholding or taking additional dollars from an IRA to pay the taxes can create significant disadvantages.
- Will income tax rates be higher in the future and what tax bracket does the individual anticipate being in? Income tax rates because of the Tax Cuts and Jobs Act (TCJA) may offer an opportunity to make Roth conversions in a lower income tax rate environment.
- How long until the client needs the money? Ideally, money is held for several years to allow for market growth potentially offsetting the tax liability at conversion time.
- Pro-rata rule and the two Roth IRA 5-year rules, each of which could have significant income tax impact for clients.

Talk about Roth IRA conversions with confidence

Jay Kautt details how partial conversions can offer control, flexibility and long-term tax benefits for the right clients in our Roth IRA conversion guides. Get more details about tax implications, identifying ideal client candidates and our free 5-year rules and pro-rata rule guides in the full article.

**A “qualified withdrawal” is any distribution made after the 5-year tax period and one of the following apply: On or after age 59 ½, disability or made to the beneficiary or to the estate after death. First-home purchase with restrictions. A distribution that would otherwise meet the requirements of a “qualified distribution” will not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable year period beginning with the first taxable year for which the Roth conversion contribution was made.*

Learn more