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# Combine a Roth Conversion with a Charitable Giving Strategy

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One of the most important considerations when selecting between a traditional individual retirement account (IRA) and a Roth IRA is whether an investor's tax rate will be higher or lower in retirement. Clients who believe their income will be higher in the future may want to convert into a Roth IRA — but the conversion should be planned within a holistic investment strategy.

## What are Roth conversions?

In a traditional IRA, contributions are tax-deductible, with investments funded by pre-tax dollars. But eligible distributions are taxed as ordinary income when withdrawn. In a Roth IRA, on the other hand, contributions are made with after-tax dollars, but eligible distributions are tax free.

A Roth conversion is the transfer of retirement assets from a traditional IRA or an employer sponsored plan into a Roth IRA. Because of the different tax treatments, the investor will have to pay income tax now on the assets they convert — that is, funding the Roth IRA with after-tax dollars — but future eligible withdrawals will now be tax free.

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## Roth conversions might make sense in a lower market and tax environment

Because conversions require investors to pay taxes on any capital gains, converting during a down market and/or having a lower tax bracket may lead to a lower tax impact. Converting in a lower market and tax environment may offer tax advantages to those who believe they will be in a higher tax bracket during retirement.

## Tax-efficient timing

Roth conversions can take place gradually. A strategy that converts an investor's accounts over time, in amounts that will not bump them into the next higher bracket, may help them save on taxes — and keep more of what they've earned.

## Combine conversions with charitable giving

Pairing a Roth conversion with a charitable contribution like a Donor-Advised Fund (DAF) in the same year allows an investor to offset their conversion gains with a tax deduction. This tax-smart combination can lower the investor's tax burden, while the gift of an appreciated asset helps them support their favorite charities and build a giving legacy through the DAF's tax-free growth.

For more information, please refer to this resource: Donor-Advised Funds

## What else should investors consider?

Along with realistic tax-bracket expectations for retirement, investors should also consider their age and time horizon, the value of assets being converted and whether they have sufficient funds to cover the taxes they may owe upon conversion.

## Bottom line:

Planning matters. Roth conversions can provide tax-free growth and tax-free withdrawals as long as holding and age requirements are met — with no annual required minimum distributions — while also eliminating the tax liability for beneficiaries. But to fully benefit from their advantages, Roth conversions should be integrated into a holistic, tax-smart investment strategy that considers capital gains impacts, charitable giving plans and other factors.



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