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Why Should You Consider a Roth IRA Conversion?

Exploring potential benefits, eligibility, and key mechanics

Understanding Roth IRA Conversions

A Roth IRA is an Individual Retirement Account in which you pay taxes on contributions. Your contributions and earnings grow tax-free, and you can withdraw them tax-free and penalty-free after age 59½ and once the account has been open for at least five years.

A Roth IRA conversion lets you move assets from a traditional IRA to a Roth IRA. This is considered a taxable event: you'll pay tax on the converted amount in the year of the transfer, but your investments will grow tax-free once inside the Roth, and withdrawals can be made tax-free later—without required minimum distributions.

Potential Advantages May Include:

Tax-free growth and withdrawals

Investments within a Roth IRA grow tax-free, and qualified withdrawals in retirement are also tax-free—significantly enhancing the net return on long-term compounding.

Efficient conversion pricing

Converting assets during a discount period—such as real estate or credit funds experiencing a valuation dip—can lower your tax burden and create a more efficient long-term tax strategy.

Control over future tax exposure

Roth IRAs don't have required minimum distributions (RMDs), giving you more flexibility to manage taxable income in retirement.

Simplified estate planning

Roth IRAs pass tax-free to heirs and can continue growing—without required distributions; this can provide more efficient and flexible legacy planning.

How to Convert and What to Consider

What may make it more or less suitable

1. Trustee-to-Trustee Transfer

The institution holding your traditional IRA sends funds directly to a Roth IRA provider.

2. Same-Trustee Transfer

Assets are moved internally within the same institution from a traditional IRA to a Roth IRA.

3. Indirect Rollover

You receive a distribution and must deposit it into a Roth IRA within 60 days.

Strategic Roth IRA Conversions with Real Estate and Oil & Gas Investments

Converting assets from a traditional IRA to a Roth IRA can be particularly advantageous when investing in real estate development or oil & gas projects. These alternatives offer unique opportunities to minimize taxes during the conversion process and maximize tax-free growth over time.

01

Invest Through Your Traditional IRA

Begin by using funds from your traditional IRA to invest in a real estate development project or an oil & gas venture. These investments are typically held within a Self-Directed IRA (SDIRA), allowing for a broader range of asset choices beyond traditional stocks and bonds.

02

Leverage Valuation Discounts

Real Estate Development: During the early stages of a real estate project, such as land acquisition and construction, the investment may temporarily decrease in value. This lower valuation, often assessed by a third-party appraiser, can be advantageous when converting to a Roth IRA, as taxes are based on the current fair market value rather than the original investment amount.

Oil & Gas Investments: Investing in oil & gas projects can provide significant tax deductions, such as Intangible Drilling Costs (IDCs), which are 100% deductible in the year incurred. These deductions can offset the taxable income generated by the Roth conversion, effectively reducing or potentially eliminating the tax liability associated with the conversion.

03

Execute the Roth Conversion

With the asset's value temporarily reduced or offset by deductions, initiate the Roth IRA conversion. This involves transferring the investment from your traditional IRA to a Roth IRA. It's crucial to ensure that the conversion is properly documented and reported, typically through IRS Form 1099-R. Note that Roth conversions are irreversible under current tax laws.

04

Benefit from Tax-Free Growth

Post-conversion, as the real estate project reaches completion and appreciates in value, or as the oil & gas investment begins generating income, all gains within the Roth IRA grow tax-free. This strategy not only enhances your retirement portfolio's growth potential but also provides flexibility in managing future tax liabilities.

Can I Contribute to a Roth IRA?

To contribute directly to a Roth IRA, you'll need:

- Earned income (like wages, salary, or self-employment income)
- Income below certain IRS limits

Filing Status	Income Limit to Contribute Fully	Phase-Out Range
Single	Up to $150,000	$150,000 - $165,000
Married Filing Jointly	Up to $236,000	$236,000 - $246,000

When Does a Conversion Make The Most Sense?

Certain periods may present more beneficial opportunities to convert, depending on your situation.

Timing	Reason	Key Considerations
Early Retirement (Before RMDS Begin)	You may have a “tax bracket gap” between retirement and when RMDs begin. This window can be ideal for shifting assets into a tax-advantaged growth vehicle.	If you don’t need income yet, this allows years of tax-free compounding while minimizing the future impact of RMDs.
Market Downturn or Valuation Dip	Convert when assets are temporarily devalued. You lock in a lower tax cost and capture future upside tax-efficiently.	Best suited for patient, long-horizon capital (like real estate or credit) and when you have the cash to cover taxes.
Mid-to-Late Career (Ages 45-60)	Still in peak earnings, but may have occasional lower-income years (e.g., bonus deferrals, career shift, business loss).	A “fill the bracket” approach can convert just enough to stay within your current tax bracket, using downtime to reposition tax liability early.
Legacy / Estate Planning Phase	Roth IRAs pass tax-free to heirs and are not subject to RMDs. Helpful for those who won’t spend down all assets.	Consider converting growth-oriented assets you won’t need in retirement to reduce your taxable estate and give heirs more flexibility.
Downshift Years (semi-retirement, sabbatical, selling a business...)	Still in peak earnings, but may have occasional lower-income years (e.g., bonus deferrals, career shift, business loss).	A “fill the bracket” approach can convert just enough to stay within your current tax bracket, using downtime to reposition tax liability early.

Key Considerations Before a Roth Conversion

Seven questions to assess before converting

01

Will this year’s conversion push me into a higher tax bracket?

When you convert, the amount moved from your Traditional IRA is treated as taxable income. That could bump you into a higher bracket—meaning you’ll pay more in taxes than expected.

You may consider partial conversions over multiple years to manage your tax exposure. Spreading out conversions can help you “fill the bracket” without spilling into the next one.

02

Will this year’s conversion eliminate new deductions?

A large conversion may eliminate deductions you would otherwise receive introduced by the OBBBA, such as the $6,000 senior deduction (for those 65+, phasing out at $75k –$175k modified AGI for individuals, $150k –$250k for married-filing-jointly).

This would increase your effective tax rate, so model conversions carefully to identify how the taxable income impacts your deductions.

03

Do I have cash on hand to pay the taxes?

Ideally, you want to pay the conversion tax from outside your IRA. If you need to dip into the IRA itself—or sell investments to cover the bill—you’ll reduce the amount that grows tax-free.

Consider that if you’re under 59½ and use IRA funds to pay taxes, you could also trigger a 10% early withdrawal penalty.

04

Will I need access to the money within 5 years?

Converted funds are subject to a 5-year waiting period before you can withdraw them without penalty—even if you’re over 59½. If you think you’ll need the funds within five years, a conversion might backfire.

Each conversion has its own five-year period, with the five-year clock beginning January 1 of the year in which you made the conversion, regardless of the actual date you converted (converting in 2024 starts a clock from Jan 1, 2024, converting in 2025 starts separately from Jan 1, 2025, and so on).

05

Is my tax rate likely to be lower in the future?

If you’re in a high tax bracket now and expect to be in a lower one later (for example, after retiring), it may make sense to wait. Otherwise, you could be paying more tax today than you'd need to in the future.

On the other hand, if you expect taxes to rise—or if you're building a sizable tax-deferred portfolio—a conversion now could lock in today’s lower rate.

Key Considerations Before a Roth Conversion

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06

Am I receiving Medicare or Social Security?

A conversion increases your taxable income for the year, which can trigger higher Medicare premiums (IRMAA) or increase the portion of your Social Security benefits that are taxable. These are often overlooked side effects.

07

Am I planning to give from my IRA to charity?

If you're over 70½ and plan to make Qualified Charitable Distributions (QCDs) from a Traditional IRA, converting could cancel out that benefit. QCDs are already tax-free and count toward RMDs—so converting could mean you pay tax on dollars you would've otherwise given tax-free.

Is a Roth IRA Conversion Right for Me?

A well-timed conversion can open the door to:

- Tax-free growth and withdrawals
- No required minimum distributions (RMDs)
- More flexibility in retirement
- Efficient estate planning

By converting assets strategically—such as during valuation discounts in real estate or leveraging tax deductions from oil & gas investments—you can minimize your tax burden and maximize long-term growth.

Whether it's the right strategy for you depends on your income now vs. later, your investment horizon, and your estate planning goals.

Converting in 2025

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, makes this an opportune time to act if it's a fit for your financial strategy.

By permanently extending the 2017 Tax Cuts and Jobs Act's lower tax rates (e.g., 37% top rate), the OBBBA keeps rates near historic lows.

New deductions, including:

- an increased state and local tax (SALT) deduction up to $40,000 (2025–2029)
- a $6,000 senior deduction for those 65+ (2025–2028, phasing out above $75,000 MAGI for single filers or $150,000 for joint filers), and
- charitable deductions for non-itemizers starting in 2026

...can further reduce the tax cost of conversions and contribute to a more efficient long-term strategy.

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Source Acknowledgement

Source material provided by S2K Financial.

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