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Roth IRA Conversions: What to Consider and How to Complete One

Eligibility, tax considerations, conversion strategies, and implementation steps

Source: Vanguard Investor Resources & Education

What Is a Roth Conversion?

A Roth conversion is the process of moving money from a traditional IRA or another eligible pre-tax retirement account into a Roth IRA.

Traditional retirement accounts generally defer taxes until money is withdrawn. A Roth conversion changes that treatment: The converted amount is generally taxable in the year of the conversion, while future growth and qualified withdrawals from the Roth IRA may be tax-free.

Key Takeaways

- A Roth conversion moves money from a traditional IRA or another eligible pre-tax retirement account into a Roth IRA.
- The amount converted is generally taxable in the year of the conversion, while future growth and qualified withdrawals may be tax-free.
- A conversion may be worth considering if you expect a higher future tax rate, have a long investment horizon, can pay the tax with non-retirement assets, want to reduce future required minimum distributions, or want more flexibility for beneficiaries.
- A Roth conversion is permanent and cannot be reversed, so the decision should be reviewed carefully before it is completed.

The decision generally depends on:

- Your current tax rate and expected future tax rate
- The amount you plan to convert
- How the conversion may affect taxable income
- How you will pay the tax
- Your investment horizon
- Whether you may need the money within five years
- Your retirement income, RMD, and estate-planning goals

Roth IRA Contribution Eligibility

To make a direct Roth IRA contribution, you generally need earned income and must be within the applicable income limits.

For 2026, the Roth IRA contribution phaseout range is $153,000 to $168,000 for single filers and $242,000 to $252,000 for married couples filing jointly.

The annual IRA contribution limit for 2026 is $7,500 for individuals under age 50 and $8,600 for individuals age 50 and older.

You may contribute to a Roth IRA at any age as long as you have earned income and meet the other requirements.

These direct contribution limits do not prevent you from completing a Roth conversion. Roth conversions are generally permitted regardless of income.

Eligible Retirement Accounts - Snapshot

Traditional IRA
Traditional IRA balances may generally be converted to a Roth IRA.

401(k)
Eligible pre-tax assets in an employer plan may be convertible, subject to plan rules and rollover eligibility.

403(b)
Eligible pre-tax 403(b) assets may be convertible, subject to plan rules and rollover eligibility.

SEP IRA
SEP IRA balances may generally be converted to a Roth IRA.

Rollover Eligibility, Timing, and Tax Funding

Special rollover rules, five-year timing, and how the conversion tax may be paid

SIMPLE IRA

SIMPLE IRA assets may generally be converted after the applicable two-year waiting period.

529 Plan Rollover to a Roth IRA

A 529 plan may be rolled over when these conditions are satisfied:

- The 529 account must have been open for at least 15 years.
- The funds being transferred generally must have been in the plan for at least five years.
- The Roth IRA must be in the name of the 529 beneficiary.
- The rollover counts toward the annual Roth IRA contribution limit.
- The lifetime rollover limit is $35,000.
- Annual contribution limits and other requirements still apply.

Evaluate the Full Context

A Roth conversion should be evaluated in the context of your full financial and tax situation. The core question is whether paying tax now may be more advantageous than paying tax later.

If you expect your tax rate to be higher in the future, a conversion may be more attractive. If you expect your tax rate to be lower in the future, the case for converting may be weaker.

A Roth IRA can also add tax diversification by giving you access to both tax-deferred and potentially tax-free retirement accounts. That flexibility may help you manage taxable income in retirement.

Tax-Bracket and Income Effects

A conversion can affect:

- Your federal income tax bracket
- State income taxes
- Available deductions and credits
- Medicare premium surcharges
- Estimated tax requirements
- A partial conversion may help spread the taxable income across more than one year.

Five-Year Holding Period

- Each Roth conversion has its own five-year holding period for certain withdrawal rules.
- The five-year period begins on January 1 of the year in which the conversion is completed.
- Withdrawing converted amounts before the five-year period is satisfied may trigger taxes, penalties, or both, depending on your age and circumstances.

How Will You Pay the Tax?

You may pay the tax with assets outside the retirement account, with retirement assets, or with a combination of both.

Using IRA assets to pay the tax reduces the amount that remains invested. The amount withheld or distributed for taxes may also be taxable and, if you are under age 59½, may be subject to a 10% early-distribution penalty.

Paying the tax with non-retirement assets generally allows more of the converted amount to remain invested in the Roth IRA.

Will You Need the Money Soon?

If you expect to need the converted assets soon, a Roth conversion may be less attractive. A shorter investment horizon gives the account less time to benefit from potential tax-free growth.

The decision is also permanent. Once a Roth conversion is completed, it cannot be reversed. Before converting, review the amount, expected tax, bracket impact, tax-payment source, five-year rules, expected use of the money, and retirement and estate-planning goals.

Potential Benefits

Qualified tax-free income

Qualified Roth IRA withdrawals may be tax-free, which can create a source of retirement income that does not increase taxable income.

More time for tax-free growth

A longer investment horizon gives converted assets more time to grow in a Roth IRA.

Control over retirement income

A Roth IRA may provide greater flexibility when coordinating taxable and tax-free withdrawals in retirement.

Reduced future RMDs

Roth IRA owners are not required to take lifetime required minimum distributions, so converting may reduce future forced taxable withdrawals.

Estate planning

Roth IRA assets may provide tax-free income to beneficiaries, although inherited Roth IRAs are subject to beneficiary distribution rules.

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Conversion Approaches and Implementation

Required distributions, full and partial trade-offs, and the conversion sequence

Required Minimum Distribution Rules

- If you reached age 72 by December 31, 2022, you are already subject to required minimum distributions from traditional retirement accounts.
- Otherwise, your first traditional IRA RMD is generally due by April 1 of the year after you reach age 73.
- Roth IRA owners are not required to take lifetime RMDs. Inherited Roth IRA beneficiaries, however, generally have distribution requirements.

A Roth conversion may be completed all at once or spread across multiple years. The appropriate approach depends on the tax impact, available liquidity, investment horizon, and planning goals.

Full Conversion

A full conversion moves the entire eligible balance into a Roth IRA.

Potential advantages

- Eliminates future RMDs from the converted account
- Maximizes the amount available for potential tax-free growth
- May simplify future retirement-income planning

Potential disadvantages

- Creates a larger current-year tax liability
- May push income into a higher tax bracket
- May increase Medicare premiums
- Provides less flexibility to manage the conversion over time

Partial Conversion

A partial conversion moves only part of the eligible balance. Additional amounts may be converted in later years.

Potential advantages

- Creates a smaller immediate tax liability
- May help manage income tax brackets
- Provides flexibility to adjust the strategy over time
- Can reduce future RMDs without converting the full balance
- May limit the impact on Medicare premiums

Potential disadvantages

- May require a longer conversion timeline
- Provides less immediate tax-free growth
- Creates multiple five-year holding periods
- May result in missed conversion opportunities if tax rates or asset values change

Implementation Sequence

01

Confirm eligibility and review the source account

Review the account type, employer-plan rules, employment and age requirements, the SIMPLE IRA waiting period, and whether the assets can be transferred or rolled over.

Determine whether the account contains pre-tax, after-tax, or mixed assets.

02

Open a Roth IRA

If you do not already have a Roth IRA, open one with the institution that will receive the converted assets.

03

Decide how much to convert

Estimate the taxable income created by the conversion and review the effect on tax brackets, Medicare premiums, estimated tax payments, available cash, future RMDs, and the remaining traditional retirement-account balance.

Choose between a full conversion and a partial conversion based on the amount that fits your plan.

04

Follow the provider's conversion instructions

Identify the source account, receiving Roth IRA, conversion amount, investment instructions, and any tax withholding election.

Retain the conversion confirmation and related records.

05

Prepare for taxes and tax forms

The taxable conversion amount is included in income for the year of the conversion. Taxes may be paid from the converted assets or from outside assets; using outside assets preserves more of the converted amount in the Roth IRA.

You will generally receive Form 1099-R and Form 5498 in the following year. Retain both forms with your tax records.

For informational purposes only; not tax, legal, or investment advice. Consult qualified professionals.

Final Review and Important Information

Decision questions, suitability factors, educational notices, and source links

Backdoor Roth IRA Conversion

1. Make a nondeductible contribution to a traditional IRA.
2. Convert the traditional IRA contribution to a Roth IRA.
3. Pay tax on any taxable pre-tax amount included in the conversion.
4. Leave the assets in the Roth IRA for potential growth and qualified withdrawals.

The tax treatment may be more complicated if you hold other traditional, SEP, or SIMPLE IRA assets because the pro-rata rule may apply. Consider consulting a tax professional.

Questions to Review

- What is my current tax rate compared with my expected future tax rate?
- How much taxable income will the conversion create?
- Will the conversion push me into a higher tax bracket?
- Could the conversion increase Medicare premiums?
- Can I pay the tax with assets outside the retirement account?
- Will I need the converted assets within five years?
- Am I under age 59½?

Questions to Review - continued

- Should I convert the full balance or only part of it?
- How might the conversion affect future RMDs?
- How will the Roth IRA fit into my retirement-income plan?
- How will beneficiaries be affected?
- Are there employer-plan restrictions or rollover requirements?
- Should I review the decision with a tax professional or financial advisor?

Final Considerations

More Attractive When

- You expect to be in a higher tax bracket in the future.
- You have a long investment horizon.
- You can pay the conversion tax with assets outside the retirement account.
- You want to reduce future RMDs.
- You want more tax flexibility in retirement.
- You want to leave potentially tax-free assets to heirs.

Less Attractive When

- You expect to be in a lower tax bracket in the future.
- You may need the money within five years.
- You would need to use IRA assets to pay the conversion tax.
- The conversion would create an unusually high tax bracket.
- The conversion may create an undesirable Medicare premium impact.
- You do not have sufficient liquidity for the tax obligation.

The Decision Should Be Individualized

A Roth conversion can be valuable in the right circumstances, but it is not appropriate for everyone. The decision should be based on your complete tax situation, investment horizon, liquidity, retirement-income needs, RMD strategy, and estate-planning goals.

Important Information

Qualified Roth IRA withdrawals generally require that you are at least age 59½ and that the applicable five-year holding requirement has been satisfied. Earlier withdrawals may be subject to taxes, a 10% penalty, or both.

Each Roth conversion has a separate five-year holding period that begins on January 1 of the conversion year.

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