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What Is a Roth Conversion? Rules, Taxes, and More

A Roth IRA conversion involves moving assets from other retirement plans into your Roth IRA. Learn how to convert a Roth IRA and whether it's right for you.

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A tax-planning trade-off

Converting retirement savings to a Roth IRA is ultimately a tax trade-off: You generally pay taxes now in exchange for the potential of tax-free withdrawals later.

That can be appealing if you expect your tax rate to be higher in the future, want more flexibility for managing taxable income in retirement, or want a tax-efficient way to pass retirement assets to heirs. But a conversion can also increase your current-year taxable income, affect other income-based costs, and create a tax bill that usually cannot be undone.

Because the decision depends on your tax bracket, timeline, cash flow, and retirement goals, a Roth conversion is often best evaluated as part of a broader tax-planning strategy - not as an all-or-nothing move.

Key Takeaways

- A Roth conversion lets you move eligible retirement assets into a Roth IRA, but the tax implications can be significant.
- A Roth conversion may make sense if you expect your marginal tax rate to be higher in the future than it is today.
- Unlike direct Roth IRA contributions, Roth conversions are not subject to Roth IRA income limits or a contribution phase-out range.
- A Roth conversion is different than a Roth IRA contribution; contributions add new money to the account, while conversions move existing retirement assets into it.
- Once assets are in a Roth IRA, future investment growth may be tax-free if withdrawal requirements are met.1

What is a Roth conversion?

A Roth conversion is the process of moving all or part of your savings from an eligible, pre-tax retirement account into a Roth IRA. In many cases, this means converting money from a traditional IRA, SEP IRA, or SIMPLE IRA.

Some workplace retirement plans also allow a related transaction, called an in-plan Roth rollover. This generally involves moving eligible pre-tax money from a 401(k), 403(b), or 457(b) into a designated Roth account within the same employer plan, if the plan allows it.

Roth Conversion Fundamentals and Tax Implications

How conversions differ, operate, and create taxable income

Roth IRA conversions vs. Roth IRA contributions

The main difference between a Roth conversion and a Roth IRA contribution is the source of the money.

A Roth IRA contribution involves putting new money into the account, subject to annual contribution limits and income rules. Eligibility to contribute directly to a Roth IRA is based on your modified adjusted gross income (MAGI) and tax filing status, and contribution limits phase out at higher income levels.

A Roth conversion, on the other hand, involves moving existing retirement assets into a Roth IRA. Income limits that apply to direct Roth IRA contributions do not apply to Roth conversions.

How does a Roth conversion work?

When you convert assets to a Roth IRA, the pre-tax amount you converted is added to your taxable income for that year. Once the assets are in the Roth IRA, future earnings may grow tax-free, and qualified withdrawals may also be tax-free.

A conversion does not have to be all or nothing. You may be able to convert part of an account, rather than the entire balance. For some investors, making partial conversions over multiple years can make it easier to manage the tax impact.

Not all assets are eligible for conversion. Required minimum distributions (RMDs), for example, cannot be converted to a Roth IRA and must be taken before any conversion is completed. Also inherited assets are generally not eligible for a Roth conversion.

Roth conversion tax implications

The biggest tradeoff in a Roth conversion is the upfront tax bill.

Money in a traditional IRA or other pre-tax retirement account typically has not yet been taxed. When you convert those assets to a Roth IRA, the taxable amount is generally treated as ordinary income for that year. A larger conversion can increase your taxable income and may push part of your income into a higher tax bracket.

A Roth conversion can also affect other income-based items, including Medicare premiums, taxes on Social Security benefits, and eligibility for certain tax credits or tax deductions. For that reason, many investors evaluate not just whether to convert, but how much to convert in a given tax year.

Core Conversion Rules

There's no income limit for Roth conversions

Income limits apply to direct Roth IRA contributions, but not to conversions. That means high earners who make too much to contribute directly to a Roth IRA may still be able to convert eligible retirement assets.

There's no annual limit on conversion amounts

Annual IRA contribution limits do not apply to Roth conversions. However, converting a larger amount can create a larger tax bill, so the practical limit is often tax-related rather than rule-related.

Roth conversions generally cannot be undone

Roth conversions made in 2018 or later generally cannot be recharacterized back to a traditional IRA. Once the conversion is complete, you can't reverse it.

RMDs cannot be converted

If you're required to take an RMD for the year, you generally must take it before converting additional eligible assets. The RMD itself is not eligible to be rolled over into a Roth IRA.

Withdrawal timing rules still matter

Roth IRAs have special withdrawal rules. Qualified distributions generally require a five-year holding period and another qualifying condition, such as reaching age 59½. Conversions also have their own five-year holding rule for penalty purposes, so it is important to understand the withdrawal rules before converting money you may need soon.

When a Roth Conversion May or May Not Make Sense

A balanced view of the situations that can strengthen or weaken the case for converting

When It May Make Sense

A Roth conversion may be worth considering if:

You expect your tax rate to be higher later

If you expect to be in a higher tax bracket in retirement, paying taxes now at a lower rate may be beneficial.

You have a lower-income year

A year with unusually low income can create an opportunity to convert some retirement assets at a lower tax cost. This can happen after leaving a job, early in retirement before RMDs begin, or during a temporary income gap.

You want more tax diversification

Having both tax-deferred and potentially tax-free retirement assets can give you more flexibility when deciding where to pull income from in retirement.

You want to reduce future RMD pressure

Traditional IRAs are generally subject to RMDs later in life. Roth IRAs are not subject to RMDs during the original owner's lifetime, so converting some assets may reduce future forced taxable withdrawals.

You want to leave Roth assets to heirs

If you don't expect to spend all your retirement savings, a Roth conversion may support your estate planning goals by allowing beneficiaries to inherit Roth assets instead of tax-deferred retirement assets.

That can be attractive, because qualified Roth IRA withdrawals are generally tax-free to your heirs. However, inherited Roth IRAs are still subject to RMDs for most beneficiaries.

When It May Not Make Sense

A Roth conversion may be less appealing if:

You expect your tax rate to be lower later

If you're likely to pay taxes at a lower rate in retirement, converting now may mean paying taxes sooner and at a higher rate than necessary.

You need the money soon

The less time the money has to remain invested, the less opportunity there is for tax-free growth to offset the upfront tax cost. Generally, if you need the converted assets to pay for living expenses within the next five years, a Roth conversion may not make sense.

The conversion creates too large a tax bill

A large conversion can push more income into a higher tax bracket or affect other income-based costs.

You would need retirement assets to pay the taxes

Using IRA assets to cover the tax bill can reduce the amount that ends up in the Roth IRA, which may weaken the long-term benefit of the conversion. If you're under age 59½, using retirement funds to pay the tax bill may also create additional penalty issues. In many cases, paying the tax bill with non-retirement assets may help preserve more of the converted amount for potential tax-free growth. By paying the tax bill with taxable account assets, you're essentially exchanging them for Roth assets.

You plan to leave IRA assets to charity

Traditional IRA assets can be efficient for charitable giving, especially for retirees using qualified charitable distributions. If charitable giving is a major part of your plan, converting those assets to a Roth IRA may make less sense.

Is a Roth conversion right for you?

A Roth conversion can be a useful tax-planning strategy when the potential long-term benefits outweigh the upfront tax cost. For some investors, converting over multiple years may help manage taxable income while creating more flexibility in retirement and potentially supporting estate planning goals.

But a conversion is not automatically the right move. The tax impact can depend on your current income, expected future tax rate, timeline, cash flow, and plans for the assets. Because Roth conversions can affect your tax bracket, Medicare premiums, Social Security taxes, and other income-based costs, it may help to consult a qualified tax advisor before moving forward.

FAQ: Roth Conversions

Additional planning questions and source resources

Can a Roth conversion be used for a backdoor Roth IRA?

Yes. A backdoor Roth IRA strategy typically involves making a nondeductible contribution to a traditional IRA and then converting that money to a Roth IRA.

This strategy is often considered by investors whose income is too high to make a direct Roth IRA contribution. However, the tax treatment can be more complicated if you have other traditional, SEP, or SIMPLE IRA assets.

Because a backdoor Roth IRA can involve both contribution and conversion rules, it may be worth consulting a tax advisor before using this strategy.

How does a Roth conversion affect an inherited IRA?

A Roth conversion can affect what beneficiaries inherit. If you convert traditional IRA assets to a Roth IRA during your lifetime, your beneficiaries may inherit Roth IRA assets, which are generally tax-free.

However, inherited Roth IRAs are still subject to beneficiary distribution rules, and beneficiaries may need to withdraw all assets from the account within a certain period after the original owner's death.

Whether converting assets for heirs makes sense depends on several factors, including your tax rate, your beneficiaries' tax situations, how long the assets may remain invested, and whether you expect to use the money during your lifetime.

Can you undo or recharacterize a Roth conversion?

No. Roth conversions made in 2018 or later usually cannot be recharacterized back to a traditional IRA.

In the past, some investors could reverse, or "recharacterize," a Roth conversion if the conversion no longer made sense. That option is no longer available for most Roth conversions. As a result, it is important to evaluate the tax impact before completing a conversion.

1 Earnings on Roth 401(k) contributions are eligible for tax-free treatment as long as the distribution occurs at least five years after the year you made your first Roth 401(k) contribution and you have reached age 59½, have become disabled, or have died.

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Roth IRA conversions require a 5-year holding period before earnings can be withdrawn tax-free and subsequent conversions will require their own 5-year holding period. In addition, earnings distributions prior to age 59½ are subject to an early withdrawal penalty.

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