Roth Conversion Checklist

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Discussed on [Episode 145 of Personal Finance for Long-Term Investors](#).

Topic 1: Tax Rate Analysis

- ☐ **Current vs. future marginal rate**
  Estimate your tax bracket now vs. in retirement. Conversion makes sense when today's rate is lower than expected future rates.
- ☐ **Tax arbitrage window**
  Identify years where income will be unusually low…early retirement, business loss, deduction-heavy years…as prime conversion opportunities.
- ☐ **Bracket filling**
  Calculate how much room remains in your current bracket. Convert up to the top of a lower bracket to avoid pushing into a higher one.
- ☐ **State income tax**
  Factor in state tax on the conversion. Some states offer deductions for retirement income, making today's effective rate higher than Federal.

Topic 2: Competing Uses of the Same Tax Space

- ☐ **Tax-gain harvesting**
  Long-term capital gains and qualified dividends occupy the same bracket space. Harvesting gains at 0% may be more valuable than a Roth conversion in the same year. Read more here.
- ☐ **QBI deduction (self-employed)**
  Adding conversion income can reduce your qualified business income deduction by pushing income past phase-out thresholds.
- ☐ **Other deduction phase-outs**
  Conversion income can phase out deductions like the student loan interest deduction, rental real estate loss allowance, and others. Consult w/ a CPA or EA.

Topic 3: Interactions w/ Social Security & Medicare

- ☐ **Social Security taxation bump zone**
  SS benefits go from 0% to 50% to 85% taxable as income rises. Conversion income can push you across these thresholds, creating much higher true tax rates.
- ☐ **IRMAA surcharges (Medicare)**
  Medicare Parts B & D premiums spike at income thresholds based on your return from 2 years prior. A large conversion can trigger surcharges costing $1,000-$9,000+ per person.
- ☐ **Net Investment Income Tax (NIIT)**
  Roth conversion income itself isn't subject to NIIT, but it raises MAGI, which can push investment income above the $200K/$250K NIIT threshold. Creates an additional 3.8% tax.

Topic 4: Payment of Taxes

- ☐ **Pay taxes from outside money**
  Using IRA funds to pay the conversion tax decreases the conversion benefit. The conversion is most powerful when taxes are paid from a taxable account.
- ☐ **Withholding & estimated payments**
  Conversion income isn't subject to automatic withholding. You must make estimated payments or adjust W-4 withholding to avoid an underpayment penalty.
- ☐ **Opportunity cost of tax dollars**
  The money used to pay taxes is permanently removed from a taxable account. Compare the long-term compounding value of keeping it invested vs. the Roth benefit.

Topic 5: Timing & Rules

- ☐ **Age & 5-year rules**
  Roth conversions each start their own 5-year clock for penalty-free access of the converted principal. If under 59.5, withdrawals can incur a 10% penalty.
- ☐ **RMD years**
  Once RMDs begin, your RMD *must* be distributed first; you cannot convert the RMD. Plan conversion amounts carefully in RMD years.

Topic 6: Estate & Beneficiary Planning

- ☐ **Year of death / estate timing**
  If a non-spouse heir will inherit a traditional IRA and faces their own high tax bracket, pre-death conversions may be more efficient for the overall estate.
- ☐ **10-year rule for non-spouse heirs**
  Non-spouse beneficiaries must empty inherited IRAs within 10 years. If heirs will be in high brackets during that window, converting now reduces their tax burden.
- ☐ **Charitable giving plans**
  If you plan to donate IRA assets via QCD (qualified charitable distribution), those dollars pass tax-free anyway. Converting them wastes money.
- ☐ **Estate tax exposure**
  Very large estates above federal/state exemption thresholds may benefit from reducing IRA balances via conversion to shrink the taxable estate. Niche topic.

Topic 7: Break-Even & Time Horizon

- ☐ **Break-even analysis**
  What's your opportunity cost of paying taxes now? Calculate how many years it takes for tax-free Roth growth to offset the upfront tax cost.
- ☐ **Future tax law uncertainty**

Current lower tax rates (TCJA) are set to expire. A probable rate increase strengthens the case for converting now.

- ☐ **State of residence changes**
  If you plan to move to a no-income-tax state in retirement, converting now (in a high-tax state) reduces the value of the conversion.

Topic 8: Healthcare & Financial Aid

- ☐ **ACA premium tax credits**
  If you're pre-Medicare and buying coverage on the ACA exchange, conversion income raises MAGI and can reduce or eliminate premium tax credits.
- ☐ **College financial aid (FAFSA/SAI)**
  For families with college-age children, conversion income appears as parental income on FAFSA and can significantly reduce aid eligibility.
- ☐ **Medicaid / long-term care planning**
  In some states, IRA balances are counted differently for Medicaid eligibility. Converting can affect spend-down strategies and LTC planning.