ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

The Top 23 Questions That Financial Advisors Asked Us

In mid-September, Ed Slott and Company virtually hosted another successful IRA training workshop. Financial professionals from across the country, including as far away as Hawaii, joined us online for two full days of intense retirement account instruction. During that seminar, as we worked through our 410-page training manual, we simultaneously monitored the live Q&A stream and answered over 250 questions from our attendees. Through programs like this, we learn firsthand what areas are most problematic for advisors and their clients. In this issue, we are bringing the top 23 of those questions and answers to you, the loyal readers of *Ed Slott's IRA Advisor*.

1. If a client is interested in converting a traditional IRA to a Roth IRA, but has no taxable accounts or cash to pay the tax, is that a deal breaker?

There are many factors to consider when deciding whether to convert a traditional IRA to a Roth IRA. One major consideration is the availability of outside funds to pay the taxes on the Roth conversion. It is usually recommended to use those outside funds to avoid paying taxes on the conversion from IRA funds since using IRA funds will result in less dollars being converted. Using IRA funds will be worse for those who are under age 59½ as they will incur the 10% early distribution penalty on the amount used to pay the tax, in addition to the overall taxes due.

However, when it comes to a Roth conversion, there are numerous considerations, such as the timeline for needing the money, and how future tax brackets compare to current ones. Not having outside money to pay the taxes on the conversion is not necessarily a deal breaker in all situations. It is an important consideration, but just one of many factors to consider when deciding whether or not to convert.

2. Do all conversions have a five-year holding period, regardless of the age of the IRA owner?

The five-year holding period rules can be confusing. This is because there are really two five-year holding periods to track. The first one must be satisfied to take tax-free distributions of earnings from a Roth IRA. This five-year holding period begins with an individual's first deposit into any Roth IRA (either via contribution or conversion) and does not restart with future contributions or conversions.

The second five-year holding period must be satisfied for penalty-free distributions of converted funds. This five-year holding period does apply separately to each conversion, but only to those who are under age 59½.