



American Endowment Foundation

## Roth IRA Conversion

Due to changes in the tax rules and regulations governing IRAs, the ability to convert a traditional IRA to a Roth IRA account has become a topic of interest to many high income earners. The income cap that previously existed is no longer in place, allowing those who earn more than \$100,000 in income to be able to make a conversion from a traditional IRA to a Roth.

No 10% early penalty [withdrawal](#) exists if the dollars move from the traditional IRA to Roth IRA within 60 days.

One of the biggest stumbling blocks in deciding to convert, however, is having to pay taxes on the converted amounts. The taxes paid ideally should come from other non-IRA assets.

## The Power of a Companion Donor Advised Fund

Here is how the tax free Roth conversion works. A client can establish a donor advised fund (DAF) as a companion to the converted Roth account and fund the DAF with cash or a variety of appreciated asset types. The income tax deduction on the DAF contribution tends to offset the increased tax liability resulting from the Roth conversion. In summary, the account holder realizes the full intended benefits of the converted Roth account and achieves the following tax benefits:

- Full fair market value (FMV) deduction on assets contributed to the donor advised fund.
- No capital gains tax on appreciated assets contributed to the DAF.
- The DAF deduction helps to offset federal taxes on the Roth conversion.
- There are no required minimum distributions from the Roth while the client is living. Required distributions to beneficiaries can be stretched over their lifetimes and distributions are free of taxes.
- No estate taxes on assets in the donor advised fund; Roth assets are subject to estate taxes.
- Assets in the Roth and the DAF grow tax-free.

An account holder will want to use cash or a variety of appreciated assets that are outside of their traditional IRA or pay any taxes due on any converted amounts that exceed DAF contributions.

At American Endowment Foundation, financial advisors can continue to manage the assets of their clients within their clients' donor advised fund at all levels and on their familiar custodial platform.

### Summary

The collective impact of liberalizing tax laws for Roth conversions and the increase in income tax rates is triggering a surge in interest in conversions among affluent clients planning for retirement and wealth transfers. A companion donor advised fund solution can mitigate the tax bite on the conversion.