going to do it...right? That's not necessarily true. In fact, some of your clients who have been sitting on the fence for awhile may be convinced to finally take the leap ...

Ken Berry, JD • Nov. 02, 2014

[This is part of a series of articles designed to maximize tax benefits and minimize tax pitfalls at the end of the year.]

If you haven't converted a traditional IRA to a Roth by now, you're probably never going to do it ... right? That's not necessarily true. In fact, some of your clients who have been sitting on the fence for awhile may be convinced to finally take the leap when they assess their tax situation this year-end.

What could make this a prime time to convert to a Roth IRA is a combination of

Conversely, with a Roth IRA, you can continue to build up your account without taking any lifetime RMDs. For a Roth in existence at least five years, qualified distributions – including those made after age 59½ — are 100% tax-free, while other payouts may be completely or partial free of tax under the IRS' ordering rules.

However, there's a stiff tax price to pay when you convert: Any amount transferred from your traditional IRA to a Roth is treated like a taxable distribution.

So the main question for procrastinators is this: Should you jump into a Roth and, if so, when? A lot goes into the decision, including your health status and other personal circumstances, but you should focus on these four main financial factors.

1. **Tax rates:** Compare the client's expected tax rate for 2014 to tax rates in future years. For instance, if a client is in a low bracket this year and projects to pay a higher tax rate for 2015 and beyond, it's a no-brainer: Go ahead and convert. But you might not be so quick to make the move if you will be paying a conversion tax at a high tax rate in 2014 – say, the top 39.6% rate – and expect to be in a much lower bracket in retirement. It won't hurt as much to take RMDs if you're in the 25% tax bracket or lower when you retire.
2. **Living expenses:** Determine if the funds from an IRA will be needed to help pay for your living expenses during retirement. A conversion to a Roth won't be as advantageous if you have to start drawing down funds right away. On the other hand, if you have sufficient other income to live on, you may be inclined to pull the trigger on a conversion.
3. **Time horizon:** Generally, a conversion makes more sense if you aren't ready to retire yet, so you have more time to build up your savings. Therefore, if retirement is imminent or you've already retired, you may have missed the bus. But a conversion still may be viable late in life if one of your main objectives is to preserve assets for your heirs.

4. **Other resources:** This factor is often overlooked, but it can be critical in the grand

Bottom line: Account for these four factors as part of a thorough analysis for your clients. Depending on the outcome, this could be the year they finally move off the fence.

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