ASK THE **ADVISERS**

The views and opinions expressed in “Ask the Advisers” are solely those of Keith Singer.

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IRA Tax Planning

Many investors are rightfully concerned about making smart investment choices inside their IRAs; however, they often neglect how to minimize the eventual taxes they will have to pay on their IRA distributions. The government has been patiently waiting for retirees and their heirs to make withdrawals so they can tax them as ordinary income.

Before the passage of the Secure Act, many people were planning to just take required minimum distributions (RMDs) and have their beneficiaries continue taking RMDs and “stretch” them out over their lives to maximize the tax deferral. However, generally, non-spousal beneficiaries may no longer stretch an inherited IRA. They must completely empty the retirement account within 10 years which could result in a massive tax bill for the beneficiaries.

A $500,000 IRA account owned by a 65-year-old that averages 8% per year for 20 years can create over $1,000,000 of income tax liability after calculating the tax on the RMDs and the tax on the beneficiary withdrawals. That number could be much higher if tax rates increase in the future.

A client of mine who lives in NYC recently inherited a $400,000 IRA from his mother who had lived in Florida. Since his mom died after starting RMDs my client must continue taking RMDs before emptying the account within 10 years. He is in the 45% tax bracket including state income tax. His mother could have converted this account to a ROTH IRA for under 20% taxes and saved him over $200,000 of state and federal taxes.

With tax rates scheduled to go up at the end of 2025, there is a window of opportunity to potentially reduce one’s income taxes significantly. By strategically converting your traditional IRA over the next 3 years to a Roth IRA, you can eliminate future RMDs for you and your beneficiaries. More importantly, you can dissolve your partnership with the IRS for pennies on the dollar. We typically strategize with clients each year based on their projected tax brackets and several other factors to determine the optimal amount to convert to minimize taxes.