CONSERVATIVE FINANCIAL SOLUTIONS

Taxes Have Been CUT!

On Friday, December 22, 2017, President Trump signed the Tax Cuts and Jobs Act of 2017 into law[1]. This controversial piece of legislation decreases the marginal income tax bracket for many Americans, thus opening opportunities to save on income taxes. However, this opportunity has a time limit and many of the income tax provisions are expected to expire in 2026.

One of the largest opportunities provided by the new tax law involves Roth Conversions. With lower marginal tax brackets, many investors can begin to convert tax-deferred dollars into tax-exempt dollars, at a lower tax cost in 2018 compared to 2017. By converting pre-tax dollars (i.e. IRA) to tax exempt dollars (i.e. Roth IRA), investors can take advantage of the lower conversion cost while avoiding future taxes on this investment.

Prior to the new tax law, let's say a married couple wanted to convert an IRA worth $200,000 to a Roth IRA and assuming they were in the 15% income tax bracket according to the previous tax rates. The cost of the Roth Conversion may have pushed them into the higher income tax bracket, meaning that the federal income tax cost of the conversion would have been approximately 28%. In other words, they would pay $56,000 in taxes to convert their $200,000 IRA to a Roth IRA.[2]

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— Roger Ford

Using similar taxable income levels but applying the new tax rules in the Tax Cuts and Jobs Act of 2017, the tax cost of converting to a Roth IRA would be approximately 22% or $44,000. This is a difference of $12,000, offering a savings of over 20%. Taxes are on sale! The savings do not stop there. In performing this conversion, future taxes can be avoided whenever the owner needs to draw on the assets for income or when the money is transferred to their beneficiaries upon their passing, as long as you have owned the account for more than five years. Also, the owner of the account will no longer be required to take out money in the form of required minimum distributions (RMDs) from the account.

If you have traditional IRA or other tax-deferred assets, the fact of the matter is that Uncle Sam will not allow you to defer taxes indefinitely. Now is a great time to lock in tax savings before the rates expire in 2026. Don't miss out on this potential opportunity, talk to a financial advisor today.

[1] https://www.nbcnews.com/politics/politics-news/trump-signs-tax-cut-bill-first-big-legislative-win-n832141

[2] https://www.bankrate.com/finance/taxes/tax-brackets.aspx

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