

Roth Conversion: Is 2020 the Year? - Transcript

Tom Mullooly: In episode 203, we talk about the one thing that a lot of people overlook when it comes to Roth conversions.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 203. Thanks for tuning in. There are a lot of people who have seen their incomes get interrupted this year. A lot of people getting laid off from work, a lot of people out of work, a lot of things virus related have just been wrecking people's plans for 2020. In speaking with your financial planner or your tax preparer, they may have said, "Hey, this year, since your income is going to be lower than it was in the last year or the year before or maybe next year, maybe this is the year that you do a Roth conversion." These things really can be good, but they come with some places that you've got to be aware of, where errors can be made.

We've seen errors happen over the years where people will say, I'll give you a good example. People have, we'll use \$200,000 in a retirement account. They want to do a Roth conversion. They realize that they're going to have an income tax bill of about \$40,000 on this money. You have to pay tax on it. It's never been taxed before. Where we see people making the mistake is they say, "Well, we'll just take \$40,000 out and I'll roll over 160." In past years, what that's done is it's become a taxable distribution subject to a penalty from the IRS of 10%. Now, this year, due to the CARES Act, the rules are a little squishy, and so it's important to know where you stand in terms of, what is my tax liability going to be? Am I going to be subject to a penalty?

It's really important that you don't do this on your own. A lot of folks have made these mistakes in the past, and they wind up kind of shooting themselves in the foot by forgetting, hey, I really should have had tax money set aside so I can roll over the entire amount. That's a problem. One of the other things that you might want to discuss with your planner is, should I really be doing this now? Yes, my income's lower, but am I in a situation where I really should have more in savings or more in an emergency reserve? I think that's crucial to have, especially since there's so much uncertainty going on out there right now.

Important tip to remember, you may hear it from your tax preparer or a planner to say, "Hey, this might be the year to talk about a Roth conversion." Understand, it's not so straightforward. Get in touch with us, we'd be happy to walk you through all the ins and outs. That's going to wrap up episode 203. Thanks for tuning in.