

The Weekly Scenario: Roth Conversion Planning Review

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As we all have heard, Congress is targeting apparent tax loopholes used by wealthy people with the goal of raising taxes to help finance proposed spending. Retirement plans happen to be in their scopes too.

The way this may have come about is a widely publicized story of a guy who managed to amass \$50 million or so in a Roth IRA. Forget that the story was made public due to an illegal release of his confidential tax return information from the IRS!

The following proposed changes to personal retirement plan accounts apply, for years after 2021, to a person who:

1. Is a “high income” individual, that is, a married filing jointly taxpayer with taxable income in excess of \$450,000 or a single filer with taxable income over \$400,000. This appears to line up with President Biden’s campaign promise not to increase taxes on anyone making less than \$400,000 a year.
2. The combined balance of a person’s IRAs, Roth IRAs, and other defined contribution plan accounts (e.g., a 401(k) plan) exceeds \$10 million in value as of the prior year-end.

Here are the tax consequences inflicted on such as person:

- He/she may not make a regular contribution to an IRA. Since the maximum annual IRA contribution is in the range of \$7,000, this is not such a problem for someone who already has over \$10 million in plans.

The rest are more consequential:

- He/she must take a “required minimum distribution” equal to half the excess over \$10 million. And....
- If this person has more than \$20 million in combined value in such plans, he/she must take an RMD equal to 100% of the excess over \$20 million! And such excess must be taken from Roth accounts first! Note that these new RMD requirements have no age component.

There’s one change in the mix that may cause some 2021 action. They propose to outlaw the Roth conversion of after-tax money whether in an IRA or in a qualified plan, and this new prohibition would not be limited to higher-income individuals. The Roth conversion of after-tax money is a true “loophole” and it makes sense for them to close it, but it will also make sense for a lot of individuals to take advantage of the loophole while it still exists and complete conversions of their after-tax money (if possible) this year.

As always, if you have any questions or would like to learn more, please contact Steve Shane at sshane@offitkurman.com or [301.575.0313](tel:301.575.0313).