



Understanding Roth IRAs & Conversions

A practical guide to contributions, conversion timing, tax trade-offs, and what heirs really inherit.

Peter Lusk, Jr., MBA, CMT
Founder & Chief Investment Officer
Acanto LLC



Clarity First. Strategy Second. Integrity Always.

+1 914-714-0735 | peter.lusk@acantollc.com | www.acantollc.com

The Roth decision in plain English

A Roth IRA reverses the traditional retirement-account bargain. You pay tax before money enters the account; qualified withdrawals can later be free of federal income tax.

The real planning question is not whether Roth is “good.” It is whether paying tax today is likely to be more efficient than paying it later.

Three stages of the account

Stage	Roth	Traditional
Contribution	After-tax	Often deductible
Growth	Tax-free if qualified	Tax-deferred
Withdrawal	Qualified: tax-free	Generally ordinary income

2026 contribution rules

- Combined traditional/Roth IRA limit: \$7,500.
- Age 50+ catch-up: total limit \$8,600.
- Direct Roth phaseout: \$153,000-\$168,000 single/HOH.
- Direct Roth phaseout: \$242,000-\$252,000 married filing jointly.
- No age limit if the saver has qualifying compensation.

Why investors use Roth accounts

- No RMDs during the original owner’s lifetime.
- Qualified growth and withdrawals are federally income-tax-free.
- Contributions—not earnings—can generally be withdrawn without tax or penalty.
- Useful tax diversification when future rates are uncertain.
- Potentially more efficient asset for heirs.

The five-year rules

“The five-year rule” is shorthand for several different clocks. One governs qualified Roth earnings; another applies to each conversion for purposes of the early-distribution penalty. Age, disability, death, first-home rules, and ordering rules all matter.

Roth vs. traditional

Feature	Roth IRA	Traditional IRA
Owner RMD	None	Generally required
Current deduction	No	May apply
Future tax	Qualified: none	Ordinary income
Direct income limit	Yes	No; deduction can phase out

Roth conversions: where planning begins

A conversion moves pre-tax retirement dollars into a Roth account. The taxable portion is generally ordinary income in the conversion year. Conversions have no income ceiling.

Good conversion windows

- Retirement before Social Security and RMDs.
- A sabbatical, business loss, or temporarily lower income.
- A market decline, when the same shares can be converted at a lower value.
- Years before a surviving spouse may face single-filer brackets.

- A deliberate multi-year bracket-filling strategy.

Paying the tax

When practical, paying conversion tax from outside assets preserves more Roth capital. Using IRA funds can reduce compounding and may cause an additional penalty before age 59½.

Size the conversion—do not guess

Question	Why it matters
Rate today?	Sets the upfront cost.
Rate later?	Estimates the tax avoided.
Tax funding?	Changes how much stays invested.
Time horizon?	Longer compounding helps.
Who inherits?	Heir bracket can change the result.

Model the side effects

- Medicare IRMAA premiums.
- Taxation of Social Security.
- ACA premium credits.
- Net investment income tax and capital-gain brackets.
- State income tax and possible relocation.
- Charitable deductions and qualified charitable distributions.

Conversion caution

Conversions generally cannot be recharacterized back to traditional IRAs. Tax estimates, withholding, and cash reserves should be arranged before year-end.

What your children actually inherit

Most adult children and other non-spouse designated beneficiaries must empty an inherited IRA by the end of the tenth year after death. This generally applies to both traditional and Roth IRAs.

Inherited traditional IRA

Distributions are generally ordinary income. They can arrive during an heir’s peak earning years and stack on top of salary, bonuses, business income, and other taxable income.

Inherited Roth IRA

The ten-year outer deadline generally still applies, but qualified withdrawals are usually income-tax-free. A non-spouse beneficiary generally has no annual RMD in years 1-9 from an inherited Roth, yet the account must be empty by year 10.

The Roth legacy advantage

Issue	Traditional	Roth
Empty by year 10	Generally	Generally
Tax character	Ordinary income	Usually tax-free if qualified
Timing pressure	Tax brackets matter	More flexible within window
Owner lifetime RMD	Yes	No

Important exceptions

Spouses, minor children, disabled or chronically ill beneficiaries, certain beneficiaries close in age to the owner, trusts, estates, and charities can face different rules.

The accurate takeaway

A Roth does not let most children keep the inherited account forever. It can eliminate income tax on qualified withdrawals and give the heir greater flexibility within the ten-year window.

Backdoor Roth: simple idea, technical execution

A higher-income saver may make a nondeductible traditional IRA contribution and then convert it. The conversion has no income cap, but the pro-rata rule can make part of it taxable.

Before using the strategy

- Inventory every traditional, SEP, and SIMPLE IRA.
- Confirm and document after-tax basis on Form 8606.
- Ask whether an employer plan accepts pre-tax IRA roll-ins.
- Coordinate contribution and conversion reporting.
- Avoid treating the transaction as automatic or tax-free.

When conversion may be unattractive

- A much lower tax rate is expected later.
- The tax would consume emergency reserves.
- Income-related side effects are costly.
- Pre-tax assets are intended for charity.

Annual Roth conversion checklist

- Project full-year ordinary income, deductions, gains, Social Security, and Medicare premiums.
- Estimate future RMDs and surviving-spouse exposure.
- Compare partial conversions over several years.
- Confirm beneficiary designations and trust language.
- Complete conversions by December 31.
- Retain Forms 1099-R, 5498, and 8606.

How Acanto can help

Acanto coordinates cash flow, account structure, investment strategy, beneficiary planning, and multi-year conversion scenarios. Tax and legal conclusions should be confirmed with the client's CPA and estate attorney.

Primary references

IRS Publications 590-A and 590-B; IRS retirement-plan beneficiary guidance; IRS Notice 2025-67. Rules are current for this August 2026 educational guide and may change.

Schedule a Financial Clarity Review

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