



# Roth IRA Conversion Strategies to Maximize Tax Benefits

Navigating the intersection of retirement planning and tax efficiency can be complex, but a Roth IRA conversion is often among the first planning techniques investors evaluate when seeking to maximize long-term tax benefits. By strategically transferring funds from a traditional IRA or 401(k) into a Roth account, investors may create the potential for tax-free growth and withdrawals. However, because conversions trigger an upfront tax cost, thoughtful timing and execution are critical. Below, we offer guidance on how Roth conversion strategies, including laddered partial conversions and targeting lower-income years, have the potential to help support long-term tax efficiency while creating a more predictable retirement income stream.

## What Is a Roth Conversion?

A Roth IRA conversion involves transferring retirement funds from a Traditional IRA or 401(k) into a Roth IRA. The key trade-off is straightforward: You pay income tax on the amount you convert in the year of the transaction, and in exchange, future investment growth and qualified withdrawals from the Roth IRA can be received tax-free.

Thinking about making a Roth IRA conversion?

We share important considerations when deciding if a conversion is right for you.

The table below summarizes the key tax benefits, income restrictions, and potential drawbacks of contributing or converting funds among the three most common types of retirement accounts:

Feature	Roth IRA	Traditional IRA	401(k)
<p><b>Primary Tax Benefits</b></p>	<p>Tax-free withdrawals in retirement. You make contributions with after-tax dollars.</p>	<p>Tax deduction now. Contributions may reduce your current taxable income.</p>	<p>Tax deduction now. You make contributions pre-tax, lowering your current taxable income.</p>
<p><b>Key Benefits</b></p>	<ul style="list-style-type: none"> <li>• Tax-free growth</li> <li>• No Required Minimum Distributions (RMDs)</li> <li>• Flexible access to contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Immediate tax savings if deductible</li> <li>• Lowers current-year AGI</li> </ul>	<ul style="list-style-type: none"> <li>• High annual contribution limit (\$24,500 + \$8,000 catch-up for 2026)<sup>1</sup></li> <li>• Potential for employer match (free money)</li> </ul>
<p><b>Key Disadvantages</b></p>	<ul style="list-style-type: none"> <li>• No upfront tax break</li> <li>• Income limits restrict who can contribute directly</li> </ul>	<ul style="list-style-type: none"> <li>• Withdrawals taxed as ordinary income</li> <li>• Must take RMDs starting at age 73</li> <li>• There are deduction limits for workplace plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited investment options (chosen by plan).</li> <li>• Possible high fees.</li> <li>• Must take RMDs.</li> </ul>

Feature	Roth IRA	Traditional IRA	401(k)
<b>Income Limits</b>	Yes. <b>Contribution eligibility</b> phases out at modified AGI over \$153k-\$168k (single) or \$242k-\$252k (MFJ) for 2026.	Yes, for deductibility if covered by a workplace plan. Phases out at specific AGI levels.	No. All eligible employees can contribute regardless of income.
<b>Tax on Withdrawals</b>	Qualified withdrawals are 100% tax-free (after age 59½ & 5-year holding period).	The IRA taxes all withdrawals as ordinary income.	The IRS taxes all withdrawals as ordinary income.
<b>Withdrawal Rules</b>	<ul style="list-style-type: none"> <li>Withdraw any time, tax/penalty-free.</li> <li>Earnings subject to rules for tax-free treatment</li> </ul>	<ul style="list-style-type: none"> <li>Withdrawals before 59½ typically incur 10% penalty + income tax.</li> </ul>	<ul style="list-style-type: none"> <li>Withdrawals before 59½ typically incur 10% penalty + income tax.</li> <li>Loans may be permitted.</li> </ul>
<b>RMDs (Required Minimum Distributions)</b>	None for the original account owner.	Yes. Must begin at age 73 (or 75 if born 1960+).	Yes. Must begin at age 73 (or 75 if born 1960+).
<b>Best For...</b>	Those who expect to be in a higher tax bracket in retirement, want tax diversification, or value flexible access.	Those seeking an immediate tax deduction and who expect to be in a lower tax bracket in retirement.	Anyone with access to one, especially to capture an employer match. Ideal for maximizing high, pre-tax contributions.

## Understanding the difference between Roth IRA conversions and contributions

For effective tax planning, it's important to distinguish between Roth IRA conversions and Roth IRA contributions, as they are treated differently under IRS rules.

Roth IRA conversions involve transferring existing pre-tax retirement assets (from a Traditional IRA or 401(k)) into a Roth IRA. The amount converted is subject to ordinary income in the year of the conversion, but there are no income limits restricting who can convert.

Roth IRA contributions, by contrast, are new deposits of after-tax dollars made directly into your Roth IRA. Contributions are subject to annual income eligibility thresholds and contribution limits, as summarized in the table above.

In simple terms, contributions add new, after-tax dollars to a Roth IRA and are limited by income, while conversions move existing pre-tax retirement assets into a Roth IRA and trigger a current-year tax obligation.

## Key Benefits for High-Net-Worth Investors

For high-net-worth individuals (HNWIs), Roth IRA conversions can serve as a powerful, long-term planning strategy to lock in current tax rates, protect future growth from taxation, and support more efficient estate planning. The benefits are particularly compelling for investors with significant pre-tax retirement balances and long-term investment horizons.

### Tax-free growth and distributions

One of the most significant advantages of a Roth IRA conversion for HNW investors is the ability to eliminate taxes on future asset appreciation and qualified distributions. Assets held in a Roth IRA grow tax-free, and withdrawals do not increase taxable income, unlike distributions from a Traditional IRA or 401(k), which are taxed as ordinary income dollar for dollar.

For example, let's assume you have a Roth IRA with a balance of \$1 million. If the account grows to \$2 million over ten years and the full balance is distributed, none of the \$2 million would be subject to income tax since the original \$1 million was already taxed and any asset growth in the Roth IRA is not subject to additional tax.

By contrast, if the same growth occurred within a Traditional IRA or 401(k), a \$2 million distribution would be fully taxable as ordinary income, potentially placing the investor into a much higher marginal tax bracket in the year of withdrawal.

### **Pay taxes at lower rates now**

Roth IRA conversions can help reduce an investor's overall lifetime tax burden when future income is expected to be taxed at higher rates. By converting assets during years with lower marginal tax rates, investors may be able to pay less tax upfront while positioning those assets for tax-free growth thereafter.

For example, if your current combined federal and state marginal tax rate is 33.3% (24% federal and 9.3% state) and you anticipate your tax rate increasing in later years due to increased pension distributions, RMDs from pre-tax accounts, or installment payments from a sale of a business, converting assets today may allow you to lock in a lower rate. Once moved into a Roth IRA, those assets can continue to grow without creating additional income in retirement.

By contrast, if you are currently subject to the highest marginal tax rates, such as a combined 50.3% (37% federal and 13.3% state), a Roth conversion may be less attractive. In that case, each dollar converted would be taxed at a substantially elevated rate, reducing the potential long-term benefit of the strategy.

## Estate planning advantages

A Roth IRA conversion strategy may also provide meaningful estate planning benefits by increasing both control and tax efficiency for heirs. Because Roth IRAs are not subject to lifetime Required Minimum Distributions for the original owner, assets can remain invested and grow tax-free for an extended period, maximizing the legacy you leave your loved ones. While beneficiaries are generally required to take distributions from inherited Roth IRAs under current rules, those distributions are typically received income tax-free. This may preserve more wealth for your heirs and provide valuable flexibility, especially if your beneficiaries are in their peak earning years and subject to higher marginal tax rates.

## Flexibility in conversion amounts

Roth IRA conversions also offer a high degree of flexibility, as investors may choose how much of their pre-tax retirement assets to convert in any given year. This allows conversions to be tailored to specific tax objectives, such as filling lower tax brackets without pushing income into higher marginal ranges.

By spreading conversions over multiple years, investors may more precisely manage taxable income and optimize long-term tax efficiency of the strategy. Given the complexity involved, you should work closely with your CPA and [wealth advisor](#) to assess future tax brackets and evaluate any potential unintended consequences.

## Roth Conversion Rules You Should Know

Here are the key rules to understand before executing a Roth IRA conversion:

- **A Roth IRA conversion will trigger a taxable event.** The amount you convert is added to your taxable income for the year and taxed at your ordinary income tax rates.
- **Each conversion has its own 5-year clock.** Every conversion starts its own 5-year period where distributions of that converted amount prior to age 59 1/2 can trigger a 10% penalty.
- **Roth IRA must be open for at least 5 years.** Earnings withdrawn before you reach age 59 1/2 and before you've had the Roth IRA open for more than five years are subject to income tax and a 10% penalty.
- **Conversions are irrevocable.** You cannot undo or “recharacterize” a Roth conversion.
- **There are no income limits restricting who can perform a Roth conversion,** though there are limits for contributions.
- **Beware the Pro-Rata Rule:** If you have any pre-tax money in any Traditional IRA (including SEP and SIMPLE IRAs), the IRS considers all your IRAs as one. A conversion will consist of a taxable pro-rata mix of pre-tax and after-tax funds, limiting the benefit of converting only after-tax amounts.
- **Consider Medicare income-based premium thresholds:** A Roth conversion increases Modified Adjusted Gross income for the year. Higher income can trigger higher Medicare Part B and Part D premiums in a later year, which should be factored into multi-year conversion planning.

## When does a Roth Conversion Make Sense?

Here are six factors that can help you plan the timing of your Roth conversions:

- **Current year anticipated tax bracket:** Since any amount you convert to a Roth is included in your ordinary income, you would ideally convert only as much as allows you to remain within a targeted tax bracket. Understanding the upper limits of those tax brackets can help determine how much of a conversion to make each year.
- **Using the years between retirement and required distributions:** The period after retirement before Required Minimum Distributions (RMDs) begin often represents a time of materially lower taxable income.
- **Reducing or eliminating future RMDs:** Traditional IRAs and 401(k)s are subject to RMDs beginning at age 73, or age 75 if born in 1960 or later. Converting portions of pre-tax balances to a Roth IRA reduces future RMDs and the forced taxable income that comes with them, while Roth IRAs have no lifetime RMDs for the original owner. This may materially improve tax control in retirement and help manage future marginal tax brackets, Medicare premium surcharges, and other income-based thresholds.
- **Timeframe for growth:** The longer the time horizon before funds are needed, the greater the potential benefit of a Roth conversion strategy. While both traditional and Roth IRAs allow for tax-deferred growth, distributions from a Roth IRA are not taxed. The longer time horizon you have for compounding growth to occur in your Roth IRA, the more future appreciation you can shelter from ordinary income tax.
- **Current value of the assets you intend to transfer:** Assets with temporarily depressed values that you believe will regain their value can be especially attractive candidates for conversion. During market corrections, converting at lower valuations allows more shares to move into a Roth

for the same tax cost. If those assets rebound within the Roth IRA, the recovery and future growth occur on a tax-free basis.

- **Large or irregular income events:** A Roth IRA conversion allows you to strategically “fill up” your current tax bracket in a year with lower income, often the year before or after a large windfall, like the sale of a business, stock option exercises, or significant real estate transactions. By paying taxes at a known, controlled rate now, you lock in that cost and move assets into an account for permanent tax-free growth. This smooths your overall tax liability over time and reduces future RMDs.

## Roth Conversion Strategies

Effective Roth conversion strategies focus on both timing and the amount converted, with the goal of improving long-term tax efficiency. Below are several approaches that may be considered as part of a broader financial plan.

### Integrating Roth Conversions into Your Overall Tax Plan

Integrating Roth conversions into your broader tax plan involves treating conversions as part of an ongoing planning process rather than as standalone decisions. This typically requires proactive coordination with other elements of your financial picture:

- **Align conversions with income projections.** Consider scheduling conversions in years when other taxable income, such as capital gains, bonuses, or business income, is expected to be lower. Doing so may allow you to convert more assets while remaining within your targeted marginal tax bracket.
- **Smooth taxable income.** Use annual conversions to help maintain a more consistent level of taxable income from year to year. This approach may help avoid large spikes into higher brackets and support a more even tax profile over your working years and early retirement.

- **Coordinate conversions with other income sources.** In years when tax-exempt income, such as municipal bond interest, represents a larger portion of your total income, you may have more room within your tax bracket to execute a conversion. Conversely, in years when you anticipate a large bonus or other significant taxable event, you may choose to reduce or defer the amount converted to help avoid being pushed into a higher tax bracket.

Integrating Roth conversions into your overall tax strategy may help ensure that conversion decisions reflect your broader financial objectives and are implemented in coordination with your income, cash flow, and long-term planning needs.

### Combining Roth IRA Conversions with Charitable Giving

When coordinated thoughtfully, Roth IRA conversions and charitable giving can complement one another as part of an overall tax-planning approach. Certain charitable strategies may help manage taxable income in years when conversions are executed.

- **Coordinate with a Donor-Advised Fund (DAF):** Making a contribution to a DAF in the same year as a Roth conversion may allow investors to consolidate charitable deductions into a single year. When itemizing, this deduction may help offset a portion of the taxable income generated by the Roth conversion.
- **Use charitable deductions to manage conversion-year income:** Charitable contributions, whether made through a DAF or directly to qualified organizations, can reduce adjusted gross income for the year. This may help moderate the effective tax rate applied to converted amounts and improve overall cash-flow management during the conversion year.
- **Incorporate Qualified Charitable Distributions (QCDs):** For investors age 70 1/2 and older, QCDs made directly from an IRA to qualified charities can satisfy RMDs without increasing taxable income. Using QCDs strategically may help manage IRA balances and taxable income when planning future Roth conversions.

## Estate and Legacy Optimization

Roth IRA conversions can also play a role in estate and legacy planning by addressing future income tax exposure and increasing planning flexibility for beneficiaries. When evaluated within a broader estate plan, conversions may support the following objectives:

- **Reducing taxable assets over time:** By paying income-tax on converted assets during your life, you may reduce future pre-tax account balances and the income tax exposure associated with required distributions.
- **Enhancing after-tax value for heirs:** Assets held in a Roth IRA may be particularly attractive from an inheritance standpoint, as distributions to beneficiaries are generally received income-tax free under current rules. This may provide added flexibility for heirs, especially those in higher tax brackets.

## Working With Experienced Advisors

Given the complexity and long-term impact of Roth IRA conversions, they are best evaluated within a broader tax and financial plan developed in consultation with your wealth advisor and tax professional. Coordinating conversion decisions with your retirement income needs, estate planning objectives, and overall investment strategy may help improve tax efficiency and reduce the risk of unintended outcomes.

Every Roth conversion strategy is distinct. [Speak with your KAR wealth advisor](#) to discuss whether a conversion is appropriate for you and to design an approach that aligns with your long-term goals and risk tolerance.



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Sources:

1 IRS.gov, as of November 13, 2025

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