## The Roth Conversion Playbook

A Tax-Saving Guide for High-Income Professionals

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### Why This Matters

If you're a W-2 professional, RSU/stock option holder, or business owner in a high tax bracket today, a Roth conversion can be one of the most powerful — and most misunderstood — tools for reducing your **lifetime** tax bill.

Done well, it shifts money from a "tax-deferred" bucket (Traditional IRA/401(k)) into a "tax-free forever" bucket (Roth IRA), permanently locking in today's tax rate on the converted amount and letting all future growth come out completely tax-free.

Done poorly, it can push you into a higher bracket, trigger surprise Medicare surcharges, or waste money you didn't need to spend.

This guide walks through the core mechanics so you can have a smarter conversation with your tax professional.

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### 1. What Is a Roth Conversion?

A Roth conversion moves funds from a Traditional IRA (or old 401(k)) into a Roth IRA.

- You pay **ordinary income tax now** on the amount converted.
- In exchange, that money — and all future growth — is **never taxed again**, as long as IRS holding-period rules are met.

- There is **no income limit** on who can do a conversion (unlike direct Roth IRA contributions, which phase out at higher incomes).

**In short:** you're choosing to pay tax today at a rate you can see, instead of an unknown rate decades from now.

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#### 2. Who Tends to Benefit Most

Roth conversions are not right for everyone. They tend to make the most sense for:

- **Low-income years** — between jobs, a sabbatical, early retirement before Social Security/RMDs begin, or a year with unusually low business income.
- **Professionals expecting higher future tax rates** — younger high earners early in their career, or anyone who expects tax brackets to rise before retirement.
- **Investors with a long time horizon** — the longer the money grows tax-free, the more valuable the conversion becomes.
- **People concerned about Required Minimum Distributions (RMDs)** — converting now can reduce forced taxable withdrawals later in life.
- **Clients planning to leave assets to heirs** — Roth IRAs pass to beneficiaries tax-free, which can be significantly more valuable than a Traditional IRA under current inherited-IRA rules.

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#### 3. The Key Risks to Watch

- **Bracket creep** — converting too much in one year can push ordinary income into a higher marginal bracket.
- **Medicare IRMAA surcharges** — for those on or near Medicare, a large conversion can raise Medicare Part B/D premiums two years later.
- **Loss of subsidies or credits** — a conversion increases Modified Adjusted Gross Income (MAGI), which can affect ACA health insurance subsidies, the Net Investment Income Tax (NIIT) threshold, and other income-based phase-outs.
- **The 5-year rule** — each conversion has its own 5-year clock before it can be withdrawn penalty-free if you're under 59½.
- **Paying the tax from the wrong source** — using funds *from* the IRA itself to pay the conversion tax reduces the amount that grows tax-free and may trigger an early-withdrawal

penalty if you're under 59½. Ideally, pay the tax bill from outside savings.

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### 4. "Bracket-Fill" Conversion Strategy (High-Level)

A common approach — often called **bracket filling** — is to convert just enough each year to use up the remaining room in your current tax bracket without spilling into the next one.

**Illustrative example only (not personalized advice):**

| Step | Action |
| --- | --- |
| 1 | Estimate your projected taxable income for the year |
| 2 | Identify the top of your current federal tax bracket |
| 3 | Convert the difference — filling the bracket, not exceeding it |
| 4 | Repeat annually, adjusting for RSU vesting, bonuses, or business income swings |

This is especially useful in a year with an equity compensation gap (e.g., between vesting events) or a slow business year — exactly the kind of year many of our tech-industry and self-employed clients experience.

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### 5. Quick Self-Check

Ask yourself:

- ◯ Do I expect this year's income to be lower than a typical year?
- ◯ Do I have cash **outside** my retirement accounts to pay the conversion tax?
- ◯ Am I comfortable locking in today's tax rate on the converted amount?
- ◯ Am I nowhere near a Medicare IRMAA income threshold (or have I already accounted for it)?
- ◯ Do I have a multi-year time horizon before I'll need this money?

If you checked most of these boxes, a conversion is worth modeling in detail.

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### Next Step

Roth conversion decisions are highly dependent on your specific income, filing status, RSU/vesting schedule, and multi-year tax projections — this guide is educational only and is not personalized tax advice.

**Want to know your exact conversion number for this year?**

BookBright Solutions LLC offers a **Tax Assessment** engagement where we model your Roth conversion opportunity against your actual income, brackets, and equity compensation schedule.

📞 **Book your free consultation:** www.bookbrightsolutions.com

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*This guide is provided for general educational purposes only and does not constitute tax, legal, or financial advice. Tax laws and contribution/income limits shown reflect the 2025 tax year and are subject to change. Please consult with a qualified tax professional before making decisions based on this information.*

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