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The Tax Man Has Nothing On Us:  
A Deep Dive Retirement Series  
BI Consortium  
May 29, 2025

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## Diving Into Roth Conversions plus 2024 Q&A Review

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Oklahoma Chapter Director

May 29, 2025



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## Objectives

- Answer questions from 2024 presentation.
- Learn what a Roth conversion is and why you might consider doing one.
- Learn what the tax ramifications are when you do a conversion.
- Work through a Roth Conversion flow-chart.



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## 2024 Questions

- What do you mean by 'taxable', 'tax-deferred', and 'tax-free'?
- How does muni tax-exempt income affect IRMAA brackets?
- What about muni bond income in retirement years?
- How are transactions taxed in your retirement account?
- How are inherited capital gains taxed? How about a trust account?
- Should I/we prepay funeral expenses?



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## Define 'Taxable', 'Tax-deferred', 'Tax-free'

- A **taxable** account is any account that is not a retirement account.
  - Regular brokerage account, trust account, TOD/POD/DesigBen account. (Transfer of Death, Payable on Death)
- A **tax-deferred** account is any retirement account where the contributions are pre-tax. Both contributions and growth/income are taxed as income when withdrawn.
  - Traditional IRA, 401[k], 403[b], 457, TSP (Thrift Savings Plan), SIMPLE, SEP-IRA
- A **tax-free** account is any retirement account where the contributions are post-tax and both contributions and growth are not taxed when withdrawn.
  - Roth, Roth 401[k], TSP Roth, HSA



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## What About Medicare IRMAA & Muni Bond Income?

- IRMAA – Income-Related Monthly Adjustment Amount
- IRMAA is a ‘cliff tax’. \$1 over the top and you are in the next Medicare IRMAA bracket for one year.
- IRMAA is based on your income two years prior. 2025 bracket is based on your 2023 taxable income.
- Muni bond income is added back into your taxable income to establish your Medicare premiums. This new amount is your “Modified Adjusted Gross Income” or MAGI.



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## What About Muni Bond Income for Retirees?

☐ Most helpful in higher tax brackets.

☐ Will affect your IRMAA bracket for Medicare.

☐ Other tax-advantaged investments include investments such as:

- Business Development Companies (BDCs)
- Master-Limited Partnerships (MLPs)
- Real Estate Investment Trusts (REITs)



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## How Are Retirement Accounts Taxed?

- Roth accounts are tax-free, both for owner and beneficiaries. See SECURE 2 rules for heirs.
- Any withdrawals from ALL other retirement accounts are taxed as ordinary income. Uncle Sam owns part of your tax-deferred retirement account(s).
  - Exceptions:
    - Qualified Charitable Distributions (QCDs)
    - Qualified Emergency Withdrawals (see Secure Act 2)
    - LTC premiums up to a limit (currently \$2,500)



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## What About Taxes on Inherited Assets?

- Retirement Accounts (except Roths) are taxed as ordinary income with no step-up in basis.
- Taxable brokerage accounts, including Revocable Living Trust accounts, receive a step-up in basis with long-term capital gains treatment from day of death.
- Other assets in a Revocable Living Trust receive step-up in basis.
- Irrevocable Trusts DO NOT receive step-up in basis.
- Annuities are taxed as ordinary income.



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## Should I/We Pre-Pay Funeral/Burial Expenses?

- It depends.
- Access to funds to pay final expenses?
- Ease of pre-planning and pre-paying takes the pressure off heirs.
- Are you going to move or be moved by caregivers?
- Cremation can cause emotional distress if no one knows what to do with the remains or follows through.



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## Roth Conversion Flowchart



What are your goals for your investments? Why?



What is your current tax bracket and estimated future brackets? **Think long-term.**



Do you have cash outside your IRA to pay the taxes on the conversion?



What are the Medicare IRMAA and NIIT brackets this year and how close are you to them? **Think long-term.**



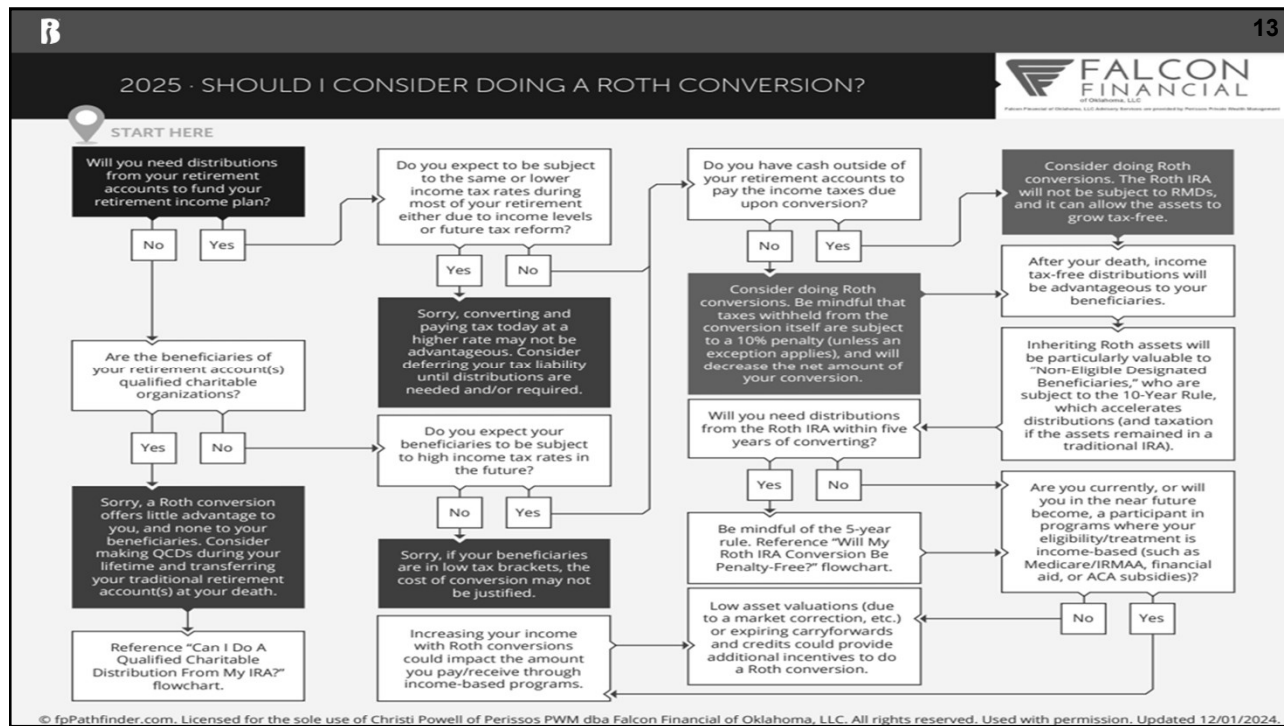
What are your other sources of income? Can you defer some?



What are your other sources of expenses? Can you bunch them?



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**2025 · IMPORTANT NUMBERS**

**FEDERAL INCOME TAX**  
Rates apply to taxable income (i.e., income after deductions).

TAX RATE	MFJ	SINGLE
10%	\$0 - \$23,850	\$0 - \$11,925
12%	\$23,851 - \$96,950	\$11,926 - \$48,475
22%	\$96,951 - \$206,700	\$48,476 - \$103,350
24%	\$206,701 - \$394,600	\$103,351 - \$197,300
32%	\$394,601 - \$501,050	\$197,301 - \$250,525
35%	\$501,051 - \$751,600	\$250,526 - \$375,775
37%	Over \$751,600	Over \$375,775

**ESTATES & TRUSTS**

TAX RATE	TAXABLE INCOME
10%	\$0 - \$3,150
24%	\$3,151 - \$11,450
35%	\$11,451 - \$15,650
37%	Over \$15,650

**ALTERNATIVE MINIMUM TAX**

EXEMPTION AMOUNT	MFJ	SINGLE
2025 TAX RATE APPLIES TO INCOME OVER	\$137,000	\$88,100
EXEMPT PHASEOUT THRESHOLD	\$239,100	\$153,100
EXEMPTION ELIMINATION	\$1,252,700	\$626,350

**LONG-TERM CAPITAL GAINS TAX**  
Rates apply to LTCGs and qualified dividends, and are based on taxable income.

TAX RATE	0% RATE	15% RATE	20% RATE
MFJ	≤ \$96,700	\$96,701 - \$600,050	> \$600,050
SINGLE	≤ \$48,350	\$48,351 - \$300,025	> \$300,025
ESTATES/TRUSTS	≤ \$3,250	\$3,251 - \$15,900	> \$15,900

**3.8% NET INVESTMENT INCOME TAX**  
Paid on the lesser of net investment income or excess of MAGI over:

MFJ	\$250,000	SINGLE	\$200,000
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**STANDARD DEDUCTION**

FILING STATUS	ADDITIONAL (AGE 65/OLDER OR BLIND)
MFJ	\$30,000
SINGLE	\$15,000

**SOCIAL SECURITY**

WAGE BASE	EARNINGS LIMIT
MEDICARE	No Limit
COLA	2.5%

**FULL RETIREMENT AGE**

BIRTH YEAR	FRA	BIRTH YEAR	FRA
1943-54	66	1958	66 + 8mo
1955	66 + 2mo	1959	66 + 10mo
1956	66 + 4mo	1960+	67
1957	66 + 6mo		

**PROVISIONAL INCOME**

0% TAXABLE	MFJ	SINGLE
0% TAXABLE	< \$32,000	< \$25,000
50% TAXABLE	\$32,000 - \$44,000	\$25,000 - \$34,000
85% TAXABLE	> \$44,000	> \$34,000

**MEDICARE PREMIUMS & IRMAA SURCHARGE**

PART B PREMIUM	IRMAA SURCHARGE:
\$185.00	
PART A PREMIUM	Less than 30 Credits: \$518
YOUR 2025 MAGI WAS:	30 - 39 Credits: \$285

**YOUR 2025 MAGI WAS:**

MFJ	SINGLE	PART B	PART D
\$212,000 or less	\$106,000 or less	-	-
\$212,001 - \$266,000	\$106,001 - \$133,000	\$74.00	\$13.70
\$266,001 - \$334,000	\$133,001 - \$167,000	\$185.00	\$35.30
\$334,001 - \$400,000	\$167,001 - \$200,000	\$295.90	\$57.00
\$400,001 - \$749,999	\$200,001 - \$499,999	\$406.90	\$78.60
\$750,000 or more	\$500,000 or more	\$443.90	\$85.80

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**2025 Tax Info**  
FRA – Full Retirement Age



## 2025 · IMPORTANT NUMBERS



## RETIREMENT PLANS

## ELECTIVE DEFERRALS (401(K), 403(B), 457)

Contribution Limit	\$23,500
Catch Up (Age 50+)	\$7,500
Catch Up (Ages 60-63)	\$11,250
403(b) Additional Catch Up (15+ Years of Service)	\$3,000

## DEFINED CONTRIBUTION PLAN

Limit Per Participant	\$70,000
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## SIMPLE IRA

Contribution Limit	\$16,500 (\$17,600, if eligible for 10% increase)
Catch Up (Age 50+)	\$3,500 (\$3,850, if eligible for 10% increase)
Catch Up (Ages 60-63)	\$5,250 (\$5,775, if eligible for 10% increase)

## SEP IRA

Maximum % of Comp (Adj. Net Earnings if Self-Employed)	25%
Contribution Limit	\$70,000
Minimum Compensation	\$750

## TRADITIONAL IRA &amp; ROTH IRA CONTRIBUTIONS

Total Contribution Limit	\$7,000
Catch Up (Age 50+)	\$1,000

## ROTH IRA ELIGIBILITY

SINGLE MAGI PHASEOUT	\$150,000 - \$165,000
MFJ MAGI PHASEOUT	\$236,000 - \$246,000

## TRADITIONAL IRA DEDUCTIBILITY (IF COVERED BY WORK PLAN)

SINGLE MAGI PHASEOUT	\$79,000 - \$89,000
MFJ MAGI PHASEOUT	\$126,000 - \$146,000
MFJ (IF ONLY SPOUSE IS COVERED)	\$236,000 - \$246,000

## EDUCATION TAX CREDIT INCENTIVES

	AMERICAN OPPORTUNITY	LIFETIME LEARNING
AMOUNT OF CREDIT	100% of first \$2,000, 25% of next \$2,000	20% of first \$10,000
SINGLE MAGI PHASEOUT	\$80,000 - \$90,000	\$80,000 - \$90,000
MFJ MAGI PHASEOUT	\$160,000 - \$180,000	\$160,000 - \$180,000

## UNIFORM LIFETIME TABLE (RMD)

Used to calculate RMD for account owners who have reached their RBD or who have elected to be treated as their deceased spouse (if applicable). Not to be used when spousal beneficiary is more than 10 years younger.

AGE	FACTOR	AGE	FACTOR
73	26.5	89	12.9
74	25.5	90	12.2
75	24.6	91	11.5
76	23.7	92	10.8
77	22.9	93	10.1
78	22.0	94	9.5
79	21.1	95	8.9
80	20.2	96	8.4
81	19.4	97	7.8
82	18.5	98	7.3
83	17.7	99	6.8
84	16.8	100	6.4
85	16.0	101	6.0
86	15.2	102	5.6
87	14.4	103	5.2
88	13.7		

## SINGLE LIFETIME TABLE (RMD)

Used to calculate RMD for certain beneficiaries of inherited accounts. This is an abbreviated version.

AGE	SINGLE	AGE	SINGLE	AGE	SINGLE
25	60.2	43	42.9	61	26.2
26	59.2	44	41.9	62	25.4
27	58.2	45	41.0	63	24.5
28	57.3	46	40.0	64	23.7
29	56.3	47	39.0	65	22.9
30	55.3	48	38.1	66	22.0
31	54.4	49	37.1	67	21.2
32	53.4	50	36.2	68	20.4
33	52.5	51	35.3	69	19.6
34	51.5	52	34.3	70	18.8
35	50.5	53	33.4	71	18.0
36	49.6	54	32.5	72	17.2
37	48.6	55	31.6	73	16.4
38	47.7	56	30.6	74	15.6
39	46.7	57	29.8	75	14.8
40	45.7	58	28.9	76	14.1
41	44.8	59	28.0	77	13.3
42	43.8	60	27.1	78	12.6

## ESTATE &amp; GIFT TAX

LIFETIME EXEMPTION	TAX RATE	GIFT TAX ANNUAL EXCLUSION
\$13,990,000	40%	\$19,000

## HEALTH SAVINGS ACCOUNT

COVERAGE	CONTRIBUTION	MINIMUM ANNUAL DEDUCTIBLE	MAX OUT-OF-POCKET EXPENSE
INDIVIDUAL	\$4,300	\$1,650	\$8,300
FAMILY	\$8,550	\$3,300	\$16,600
AGE 55+ CATCH UP	\$1,000	-	-

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## John &amp; Sally Smith

John is 67. Newly retired.

He took a \$50,000 IRA distribution for living expenses.

Sally is 65. Newly retired.

Both applied for their Social Security and have traditional Medicare and taxes deducted from their benefits.



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## Prepare Our Analysis – top of page

Scenario Analysis John &amp; Sally Smith | 2024 John Smith and Sally Smith

Back to Household | Help Video

« FIRST < PREVIOUS REORDER COLUMNS NEXT > LAST »

EXPAND ALL SECTIONS

Jump To Section TOP

	SCENARIO 1 Tax Year 2024 <small>Last Edited 2025-05-07</small>	SCENARIO 2 2025 Base Case <small>Last Edited 2025-05-09</small>	SCENARIO 3 2025 Roth Conversion <small>Last Edited 2025-05-18</small>
<b>GENERAL INFORMATION</b>			
Description	+ Add Description	+ Add Description	+ Add Description
Year	2024	2025	2025
Calculation	Current Law	Current Law	Current Law
Inflation Assumption ⓘ		2.00%	2.00%
Inflate MAGI Thresholds in Tax Report and Range Calc		<input type="checkbox"/> Select if True	<input type="checkbox"/> Select if True
<b>FILING STATUS / AGE / DEPENDENTS</b>			
<b>INCOME</b>			
<b>1040 INCOME</b>			
Wages	\$ 0	\$ 0	\$ 0
Other Wage Income	\$ 0	\$ 0	\$ 0
Tax-Exempt Interest	\$ 200	\$ 200	\$ 200
Taxable Interest	\$ 2,100	\$ 2,000	\$ 2,000



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## Prepare Our Analysis – middle of page

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EXPAND ALL SECTIONS

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	SCENARIO 1 Tax Year 2024 <small>Last Edited 2025-05-07</small>	SCENARIO 2 2025 Base Case <small>Last Edited 2025-05-09</small>	SCENARIO 3 2025 Roth Conversion <small>Last Edited 2025-05-18</small>
Taxable Interest	\$ 2,100	\$ 2,000	\$ 2,000
Qualified Dividends	\$ 2,250	\$ 2,250	\$ 2,250
Total Dividends (incl. Qualified)	\$ 10,000	\$ 10,000	\$ 10,000
IRA Distributions	\$ 50,000	\$ 50,000	\$ 50,000
Taxable Pensions and Annuities	\$ 0	\$ 0	\$ 0
Roth Conversion ⓘ		\$ 0	\$ 50,000
Gross Social Security	\$ 57,000	\$ 58,311	\$ 58,311
Taxable Social Security	\$ 48,450	\$ 45,402	\$ 49,564
<b>SCHEDULE D INCOME</b>			
Short Term Capital Gains	\$ 1,000	\$ 0	\$ 0
Long Term Capital Gains	\$ 3,000 <small>LT loss to carry forward: \$0</small>	\$ -1,000 <small>LT loss to carry forward: \$0</small>	\$ -1,000 <small>LT loss to carry forward: \$0</small>
Total Capital Gains	\$ 4,000	\$ -1,000	\$ -1,000
<b>SCHEDULE 1 INCOME</b>			
Taxable Refund	\$ 0	\$	\$
Taxable Alimony Received ⓘ	\$ 0	\$	\$



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## \$50,000 Scenario Tax Estimate

	John Smith	Sally Smith
Roth Conversion	\$ 25,000	\$ 25,000
Federal Roth Conversion Withholding	\$	\$
Roth Conversion used in income tax calculations \$50,000		
Incremental Tax Cost of Roth Conversions: \$9,653		
Roth Conversion Effective Rate: 19.31%		
Ordinary Income Bracket After Roth Conversions: 22.00%		



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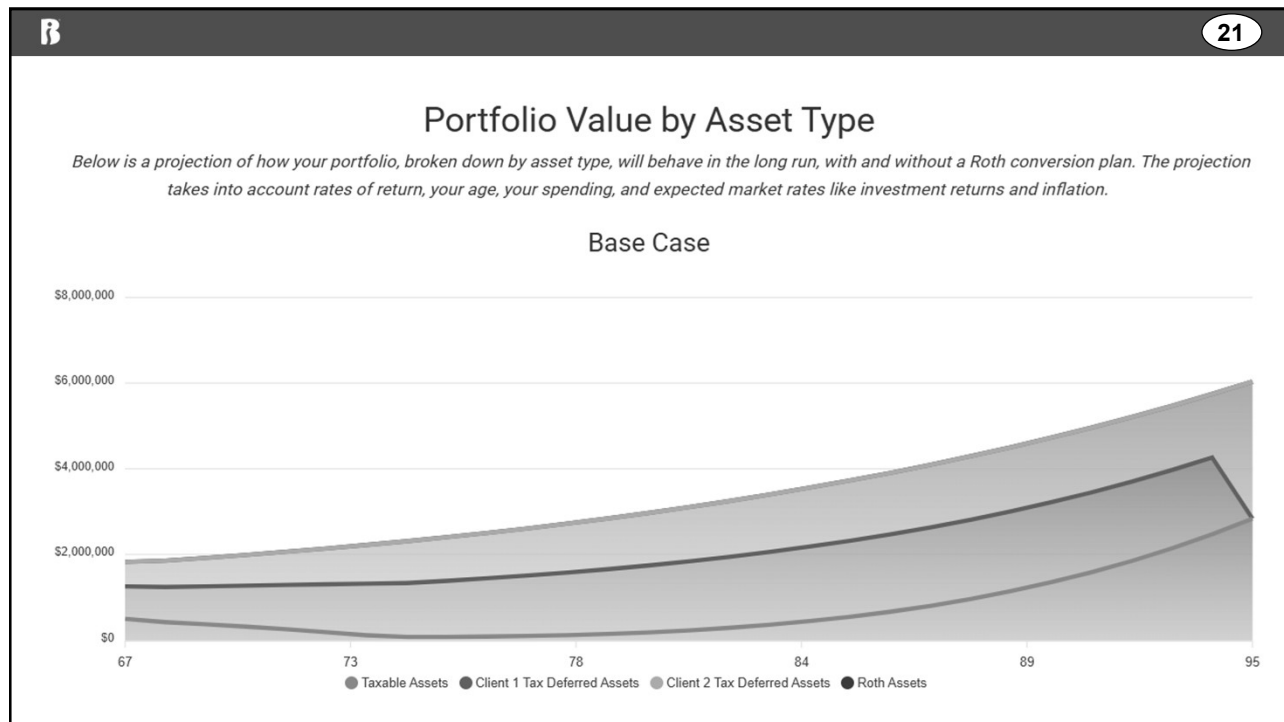
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## Tax Estimate on \$50K Conversion

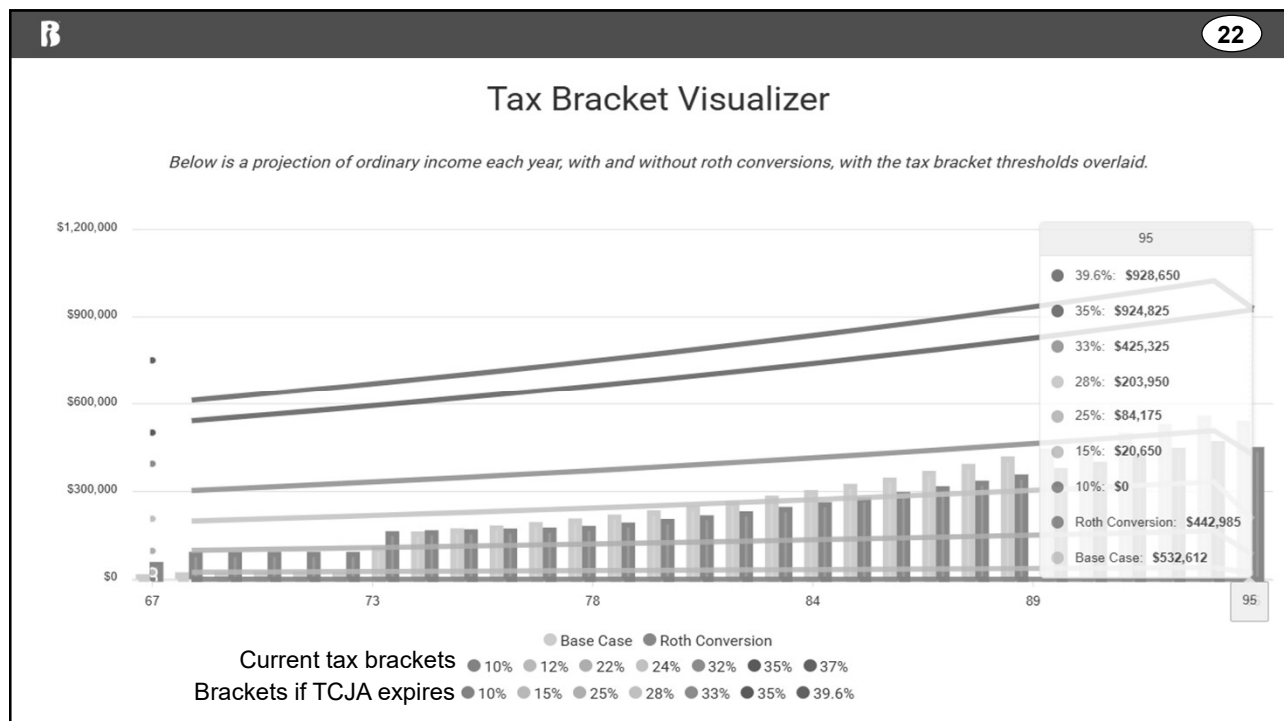
Total Income	\$	114,550	\$	106,402	\$	160,564
FOREIGN EARNED INCOME EXCLUSION (FORM 2555)						
SCHEDULE 1 DEDUCTIONS (ABOVE THE LINE)						
Schedule 1 Deductions	\$	0	\$	0	\$	0
Adjusted Gross Income	\$	114,550	\$	106,402	\$	160,564
SCHEDULE A - ITEMIZED DEDUCTIONS						
Standard/Itemized Deductions	\$	32,300	\$	33,200 <i>(standard)</i>	\$	33,200 <i>(standard)</i>
QBI DEDUCTION CALCULATION						
QBI Deduction	\$	0	\$	0	\$	0
Taxable Income	\$	82,250	\$	73,202	\$	127,364
Total Tax	\$	8,779	\$	8,037	\$	17,691
Marginal Bracket ②		12.0%		12.0%		22.0%
Effective Rate ②		10.7%		11.0%		13.9%



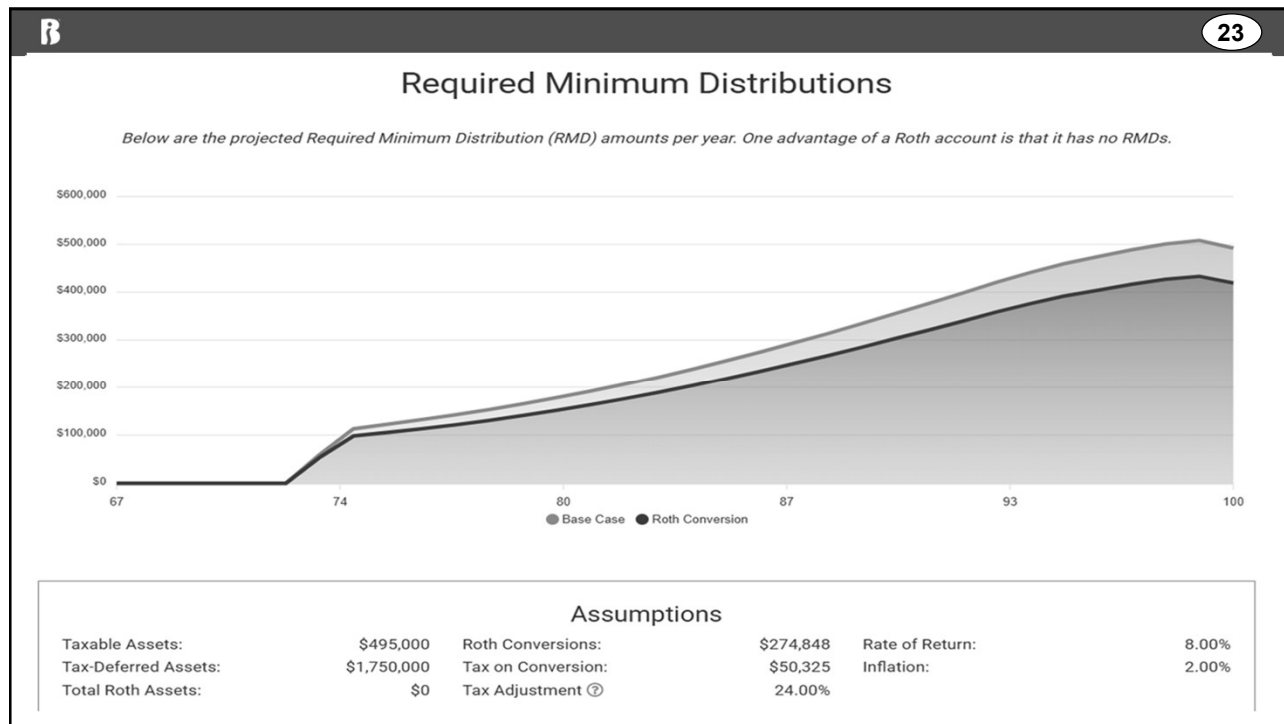
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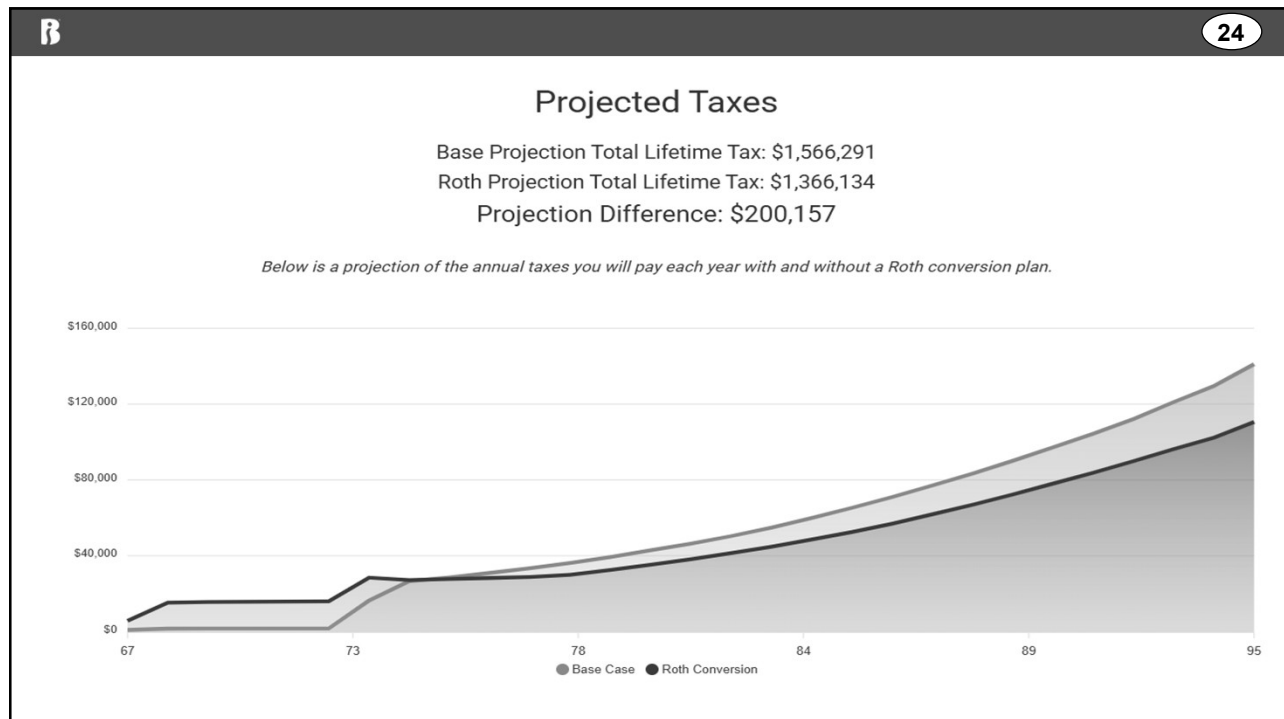
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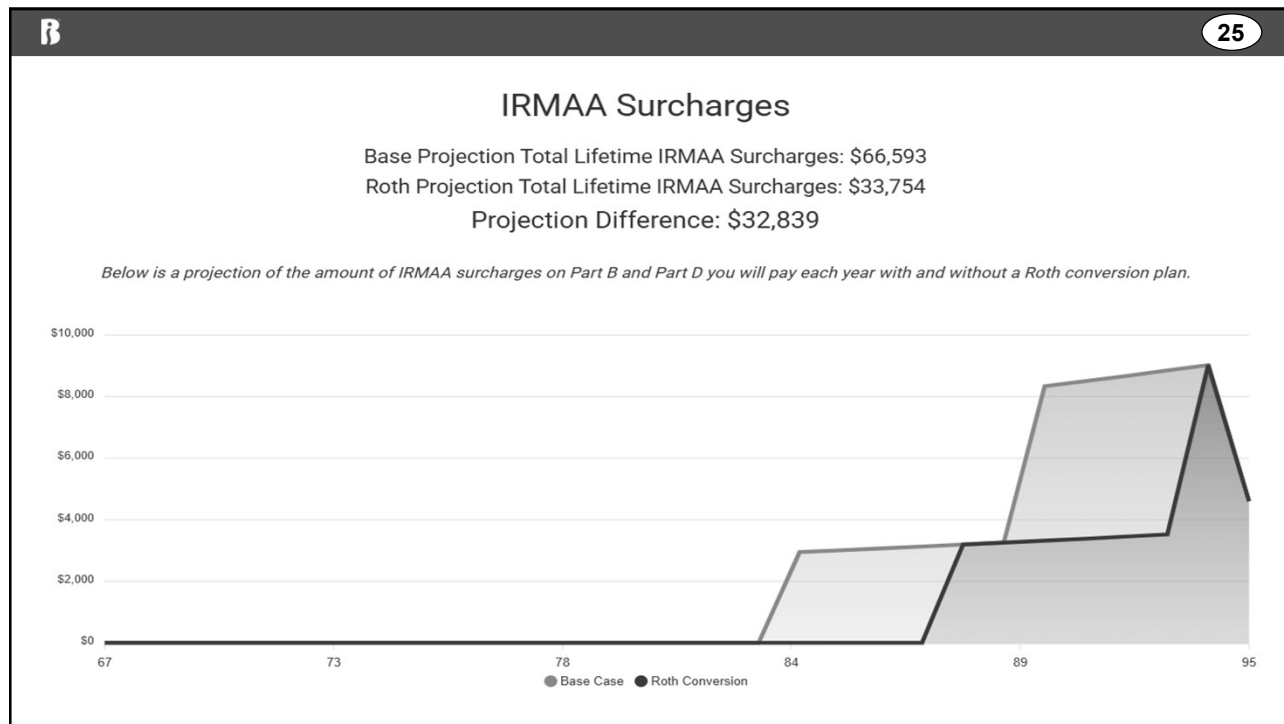
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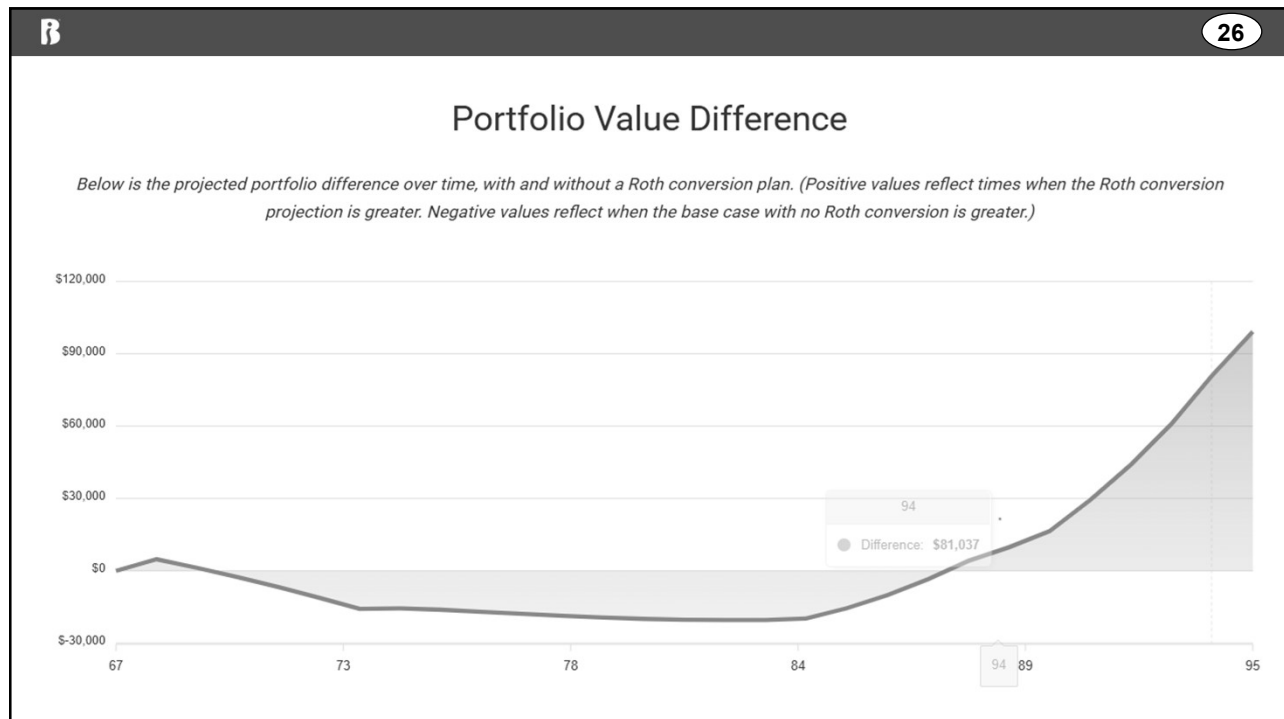
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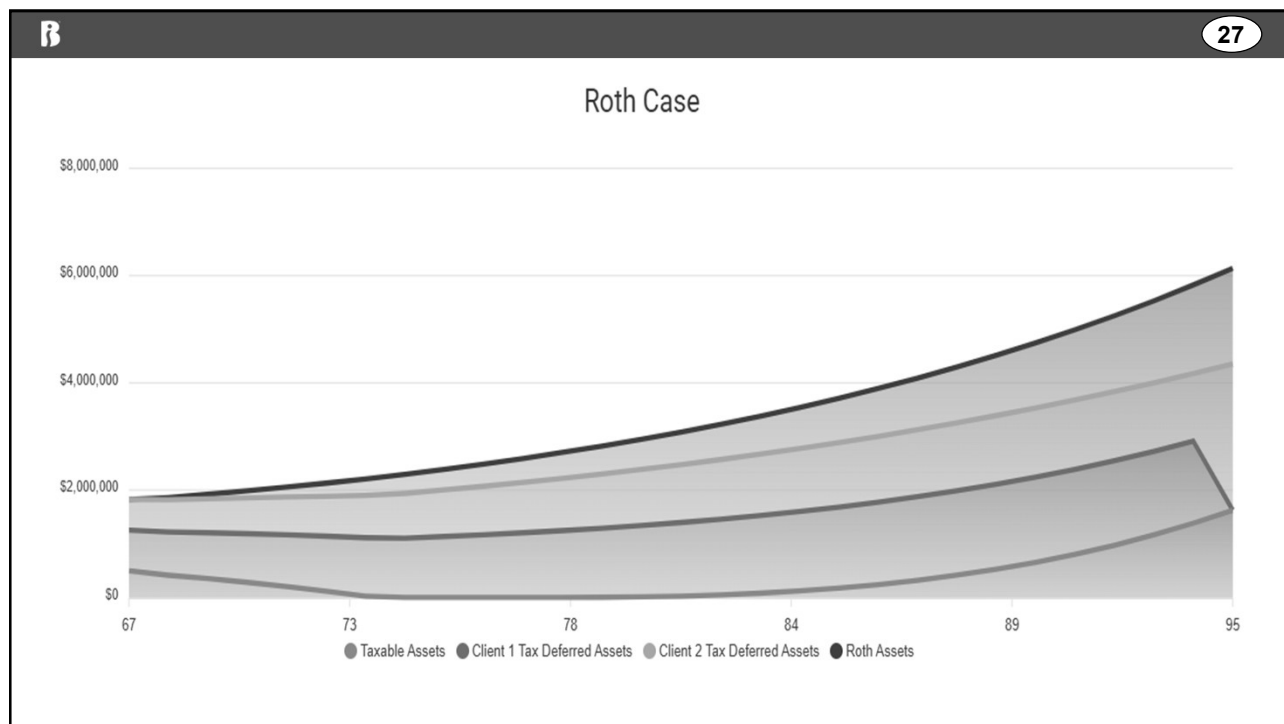
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## Strategies To Consider

- Bunch deductible expenses: taxes, medical, contributions. Coordinate them all.
  - Qualified Charitable Donations (QCDs) at 70 ½.
  - Pay your property taxes using bunching in alternating years.
  - Roth conversions in a year you have low income or large medical expense.
  - Bunch your charitable donations using the same schedule you use for property taxes.
  - Front load a Donor Advised Fund (DAF) with your local Community Foundation.



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## Summary

- We've cleared up some questions from last year.
- We've defined Roth conversion and you are answering questions about our unique situation.
- We've discussed the flowchart to help guide your decisions.
- You will talk with your CPA and CFP about this.
- You are getting ready to combine this with other tax strategies if appropriate.



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## Questions



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## Pay it forward!

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## Save the Date

- **June 30:** “Strategies for Social Security, Medicare & Long-Term Care”
- **August 4:** “Charitable Ways to Lower Taxes While Doing Good”



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## Email Questions or Comments to a Presenter...



**Email Subject Line: Roth Conversion Consortium class**

**Presenter: Christi Powell**

**Email Addr.: [cpowell@falconfinancialok.com](mailto:cpowell@falconfinancialok.com)**



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