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

1

1

B

2

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

Christi Powell, CFP®, RICP®

Oklahoma Chapter Director

May 29, 2025



2

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3

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.



4

B

5

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?



5

B

6

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 Both contributions and growth/income are taxed as income when withdrawn.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is any retirement account where the contributions are post-tax and both contributions and growth are not taxed when withdrawn.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



6

B

7

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.



7

B

8

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)



8

B

9

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)



9

B

10

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.



10

B

11

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.



11

B

12

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?



12

B
13

2025 · SHOULD I CONSIDER DOING A ROTH CONVERSION?

START HERE

The flowchart guides the user through several key questions to determine if a Roth conversion is beneficial. It starts with 'Will you need distributions from your retirement accounts to fund your retirement income plan?' and branches based on 'Yes' or 'No' answers. Key considerations include:

- Future Tax Rates:** If you expect the same or lower rates, conversion may be advantageous. Higher future rates suggest deferring tax liability.
- Cash Availability:** Having cash outside retirement accounts to pay taxes due upon conversion is a positive factor.
- Beneficiaries:** Charitable beneficiaries offer little advantage. High-income beneficiaries in the future may face higher tax rates.
- 5-Year Rule:** Mindful of the 5-year rule for conversions. Reference the 'Will My Roth IRA Conversion Be Penalty-Free?' flowchart.
- Asset Valuations:** Low valuations or expiring carryforwards/credits could provide incentives.
- Medicare/IRMAA:** Current or future participation in income-based programs like Medicare/IRMAA, ACA subsidies, or Medicaid could impact the decision.

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13

B
14

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
36%	\$501,051 - \$751,600	\$250,526 - \$376,350
37%	Over \$751,600	Over \$376,350

ESTATES & TRUSTS

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

ALTERNATIVE MINIMUM TAX

	MFJ	SINGLE
EXEMPTION AMOUNT	\$137,000	\$88,100
28% TAX RATE APPLIES TO INCOME OVER	\$239,100	\$239,100
EXEMPT PHASEOUT THRESHOLD	\$1,252,700	\$626,350
EXEMPTION ELIMINATION	\$1,800,700	\$978,750

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 - \$533,400	> \$533,400

3.8% NET INVESTMENT INCOME TAX

Paid on the lesser of net investment income or excess of MAGI over:

	MFJ	SINGLE
	\$250,000	\$200,000

STANDARD DEDUCTION

FILING STATUS	STANDARD DEDUCTION	ADDITIONAL (AGE 65/OLDER OR BLIND)
MFJ	\$30,000	MARRIED (EACH ELIGIBLE SPOUSE) \$1,600
SINGLE	\$15,000	UNMARRIED (SINGLE, HOH) \$2,000

SOCIAL SECURITY

WAGE BASE	176,100	EARNINGS LIMIT
MEDICARE	No Limit	Below FRA \$23,400
COLA	2.5%	Reaching FRA \$62,160

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

	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

YOUR 2025 MAGI WAS:		IRMAA SURCHARGE:	
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

2025 Tax Info

FRA - Full Retirement Age

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14

B
15

2025 · IMPORTANT NUMBERS

RETIREMENT PLANS		UNIFORM LIFETIME TABLE (RMD)		SINGLE LIFETIME TABLE (RMD)			
ELECTIVE DEFERRALS (401(K), 403(B), 457)		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.		Used to calculate RMD for certain beneficiaries of inherited accounts. This is an abbreviated version.			
Contribution Limit	\$23,500	AGE	FACTOR	AGE	SINGLE	AGE	SINGLE
Catch Up (Age 50+)	\$7,500	73	26.5	69	12.9	25	60.2
Catch Up (Ages 60-63)	\$11,250	74	25.5	90	12.2	26	59.2
403(b) Additional Catch Up (15+ Years of Service)	\$3,000	75	24.6	91	11.5	27	58.2
DEFINED CONTRIBUTION PLAN		76	23.7	92	10.8	28	57.3
Limit Per Participant	\$70,000	77	22.9	93	10.1	29	56.3
SIMPLE IRA		78	22.0	94	9.5	30	55.3
Contribution Limit	\$16,500 (\$17,600, if eligible for 10% increase)	79	21.1	95	8.9	31	54.4
Catch Up (Age 50+)	\$3,500 (\$3,850, if eligible for 10% increase)	80	20.2	96	8.4	32	53.4
Catch Up (Ages 60-63)	\$5,250 (\$5,775, if eligible for 10% increase)	81	19.4	97	7.8	33	52.5
SEP IRA		82	18.5	98	7.3	34	51.5
Maximum % of Comp (Adj. Net Earnings if Self-Employed)	25%	83	17.7	99	6.8	35	50.5
Contribution Limit	\$70,000	84	16.8	100	6.4	36	49.6
Minimum Compensation	\$750	85	16.0	101	6.0	37	48.7
TRADITIONAL IRA & ROTH IRA CONTRIBUTIONS		86	15.2	102	5.6	38	47.7
Total Contribution Limit	\$7,000	87	14.4	103	5.2	39	46.7
Catch Up (Age 50+)	\$1,000	88	13.7			40	45.7
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						
ESTATE & GIFT TAX							
				LIFETIME EXEMPTION		TAX RATE	
				\$13,990,000		40%	
				HEALTH SAVINGS ACCOUNT		GIFT TAX ANNUAL EXCLUSION	
				COVERAGE		MINIMUM ANNUAL DEDUCTIBLE	
				INDIVIDUAL		\$1,650	
				FAMILY		\$3,300	
				AGE 55+ CATCH UP		\$1,000	
				MAX OUT-OF-POCKET EXPENSE		\$8,300	
				SINGLE MAGI PHASEOUT		\$16,600	
				AMERICAN OPPORTUNITY		100% of first \$2,000, 25% of next \$2,000	
				LIFETIME LEARNING		20% of first \$10,000	
				SINGLE MAGI PHASEOUT		\$80,000 - \$90,000	
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				LIFETIME LEARNING			

17

Prepare Our Analysis – top of page

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

Back to Household | Help Video

<< FIRST < PREVIOUS
REORDER COLUMNS
NEXT > LAST >>

	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>
GENERAL INFORMATION			
Description	+ Add Description		
Year	2024	2025	2025
Calculation	Current Law	Current Law	Current Law
Inflation Assumption	2.00%	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	<input type="checkbox"/> Select if True
FILING STATUS / AGE / DEPENDENTS			
INCOME			
1040 INCOME			
Wages	\$ 0	\$ 0	\$ 0
Other Wage Income	\$ 0	\$ 0	\$ 0
Tax-Exempt Interest	\$ 200	\$ 200	\$ 200
Taxable Interest	\$ 2,100	\$ 2,000	\$ 2,000



17

18

Prepare Our Analysis – middle of page

<< FIRST < PREVIOUS
REORDER COLUMNS
NEXT > LAST >>

	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	\$ 0	\$ 50,000
Gross Social Security	\$ 57,000	\$ 58,311	\$ 58,311
Taxable Social Security	\$ 48,450	\$ 45,402	\$ 49,564
SCHEDULE D INCOME			
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
SCHEDULE 1 INCOME			
Taxable Refund	\$ 0	\$ 0	\$ 0
Taxable Alimony Received	\$ 0	\$ 0	\$ 0



18

B
19

\$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%



19

B
20

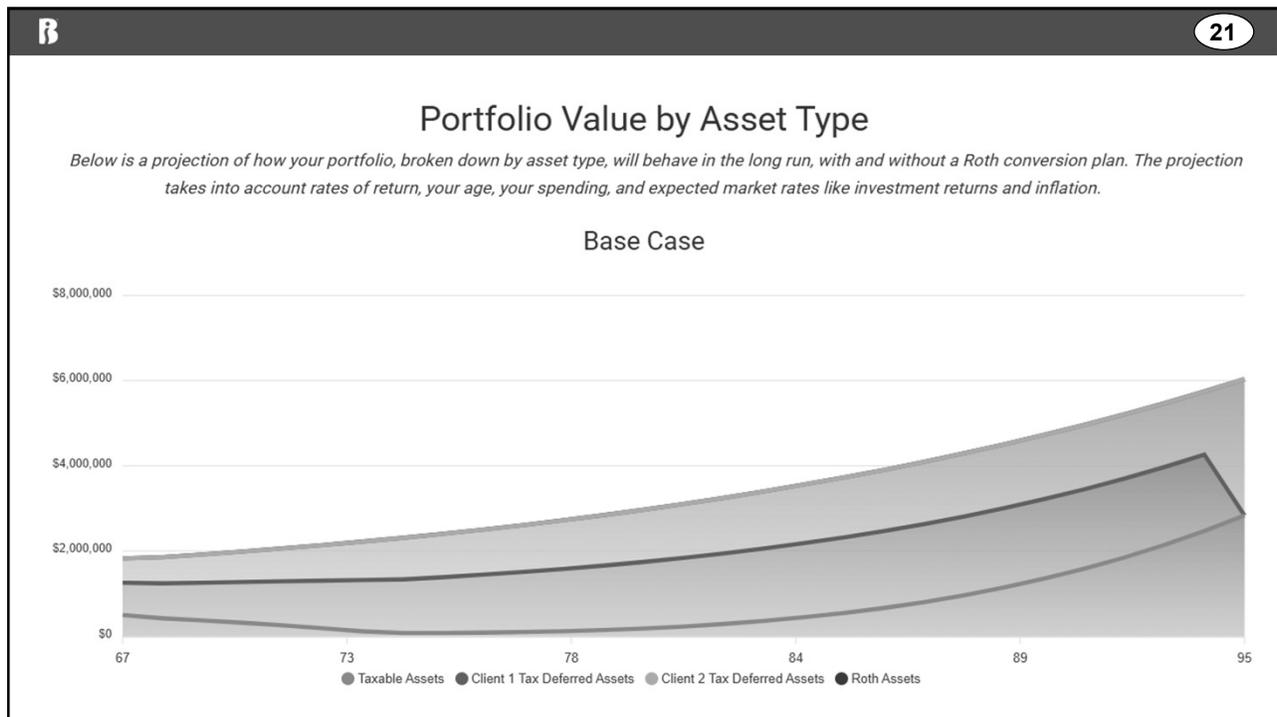
Tax Estimate on \$50K Conversion

	\$ 114,550	\$ 106,402	\$ 160,564
TOTAL INCOME			
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

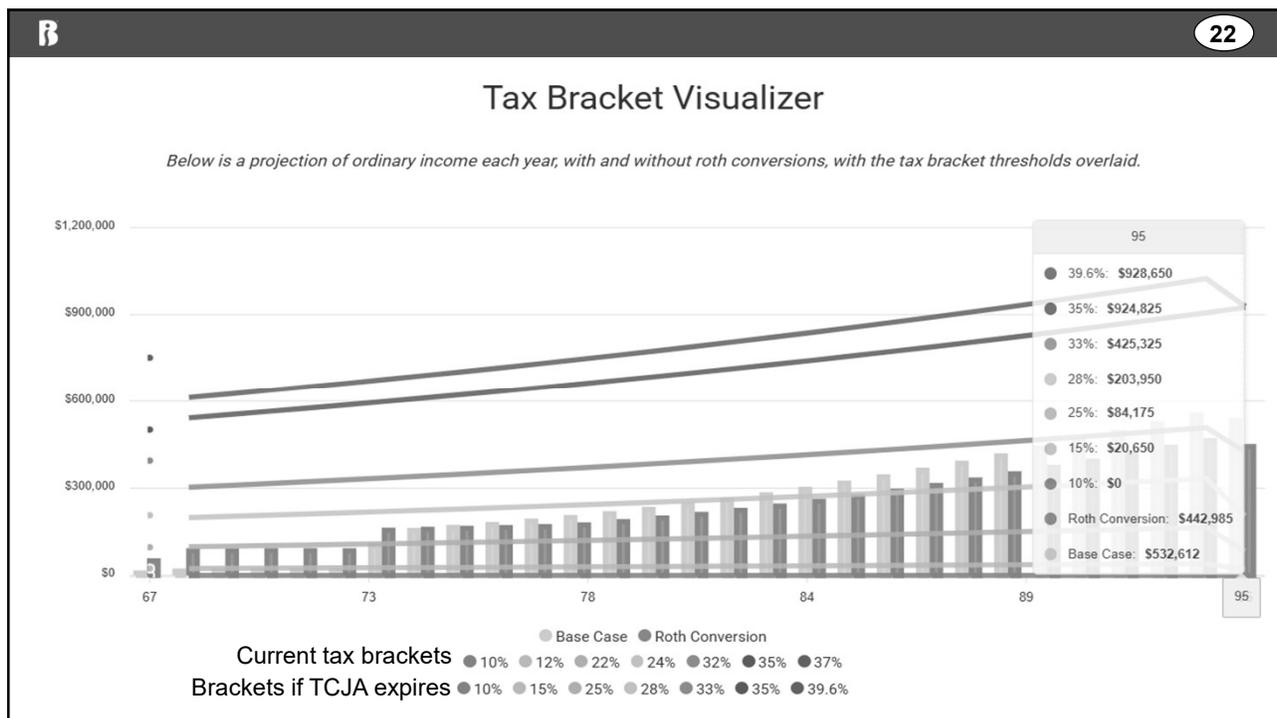
Total Tax	\$ 8,779	\$ 8,037	\$ 17,691
Marginal Bracket [Ⓢ]	12.0%	12.0%	22.0%
Effective Rate [Ⓢ]	10.7%	11.0%	13.9%



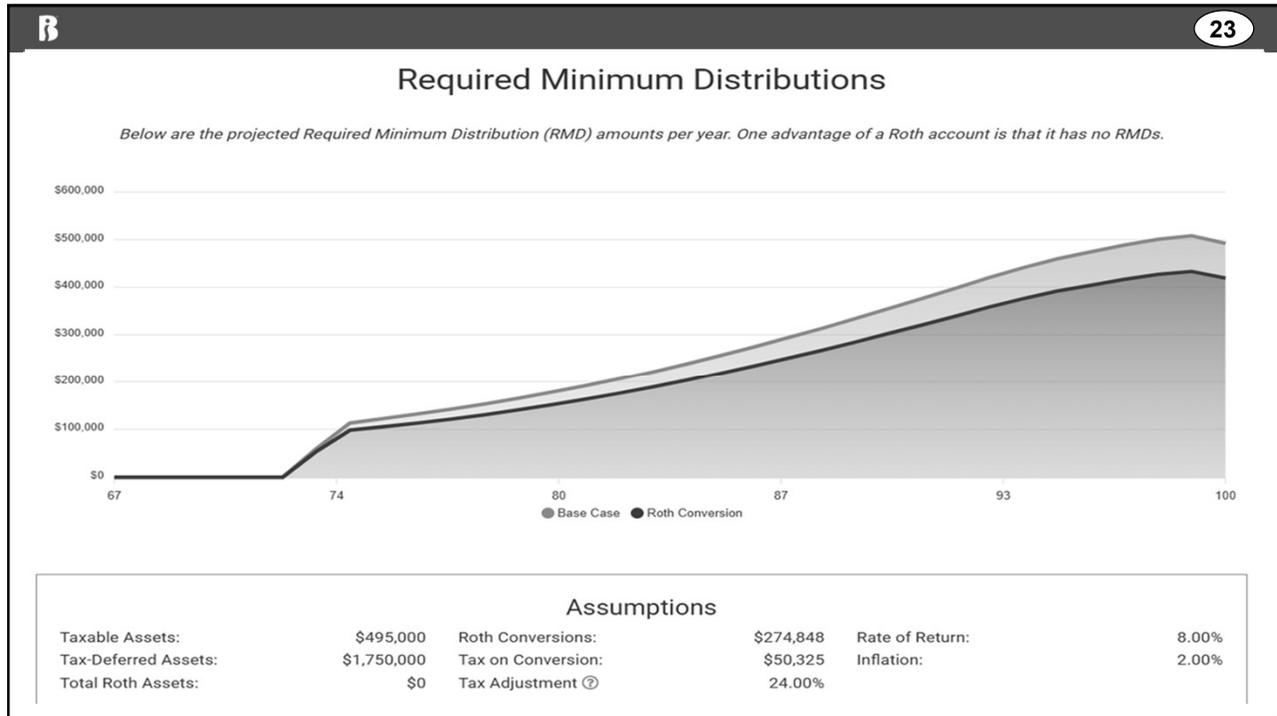
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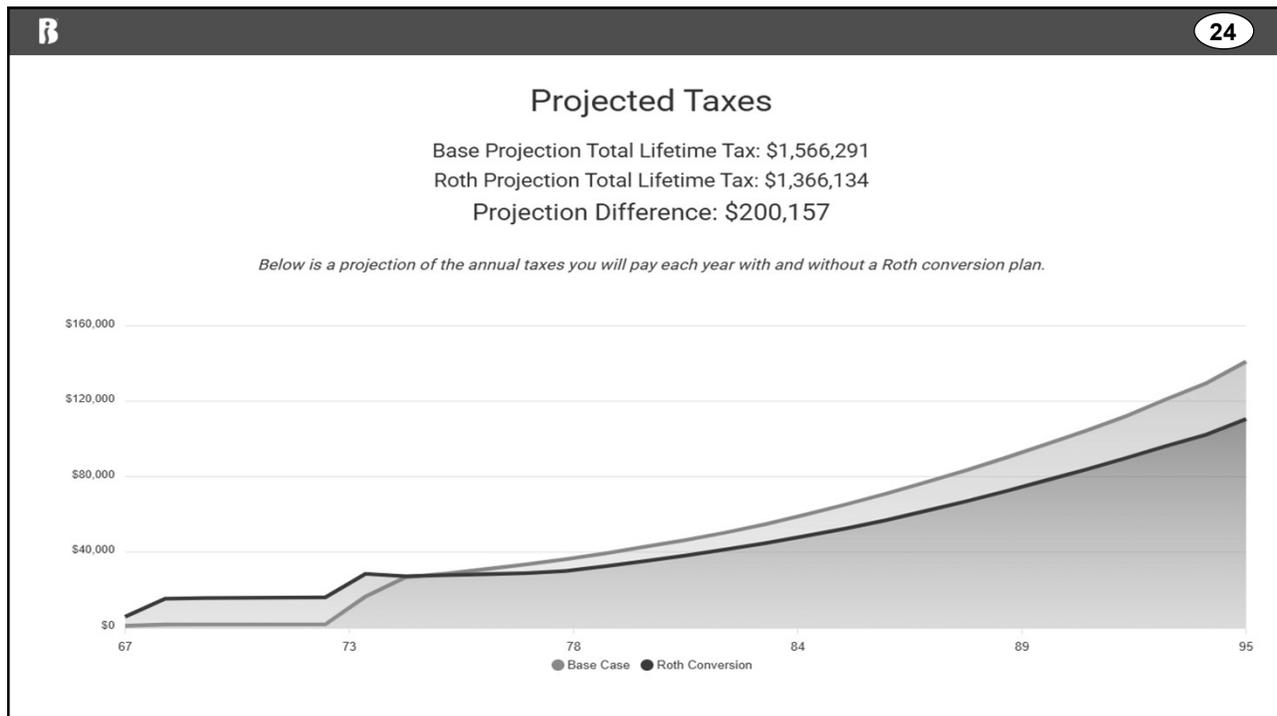
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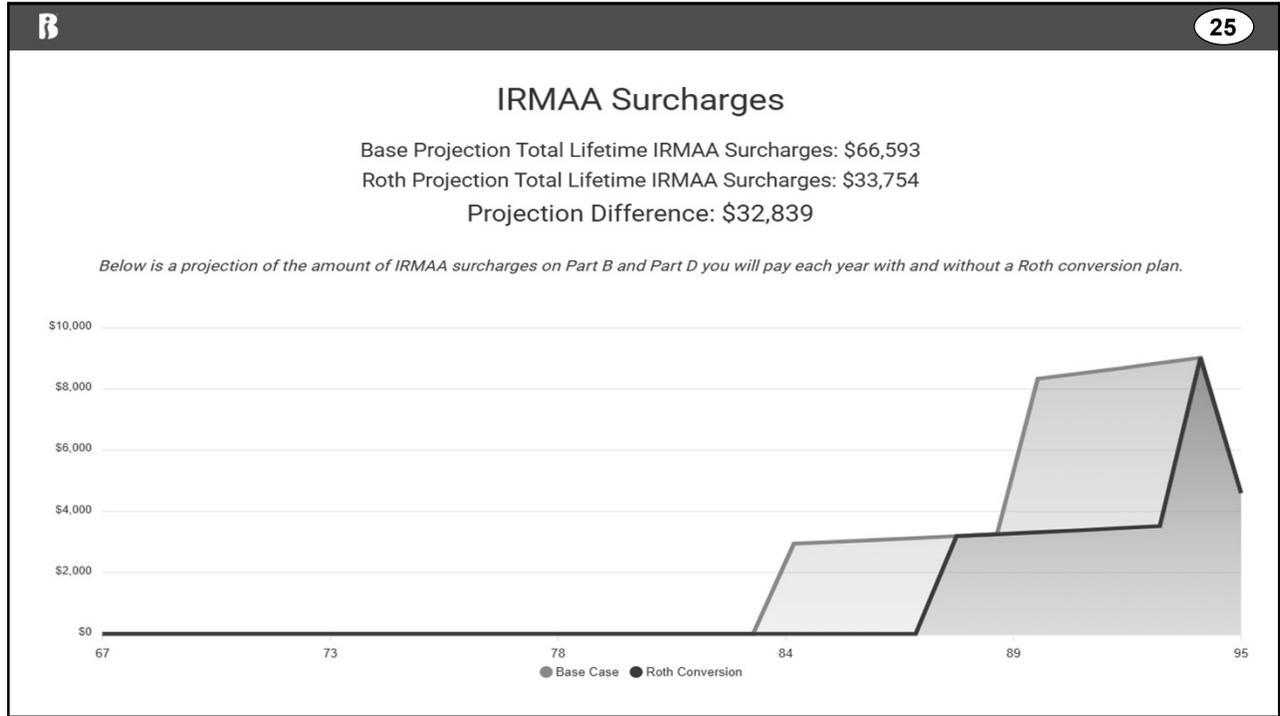
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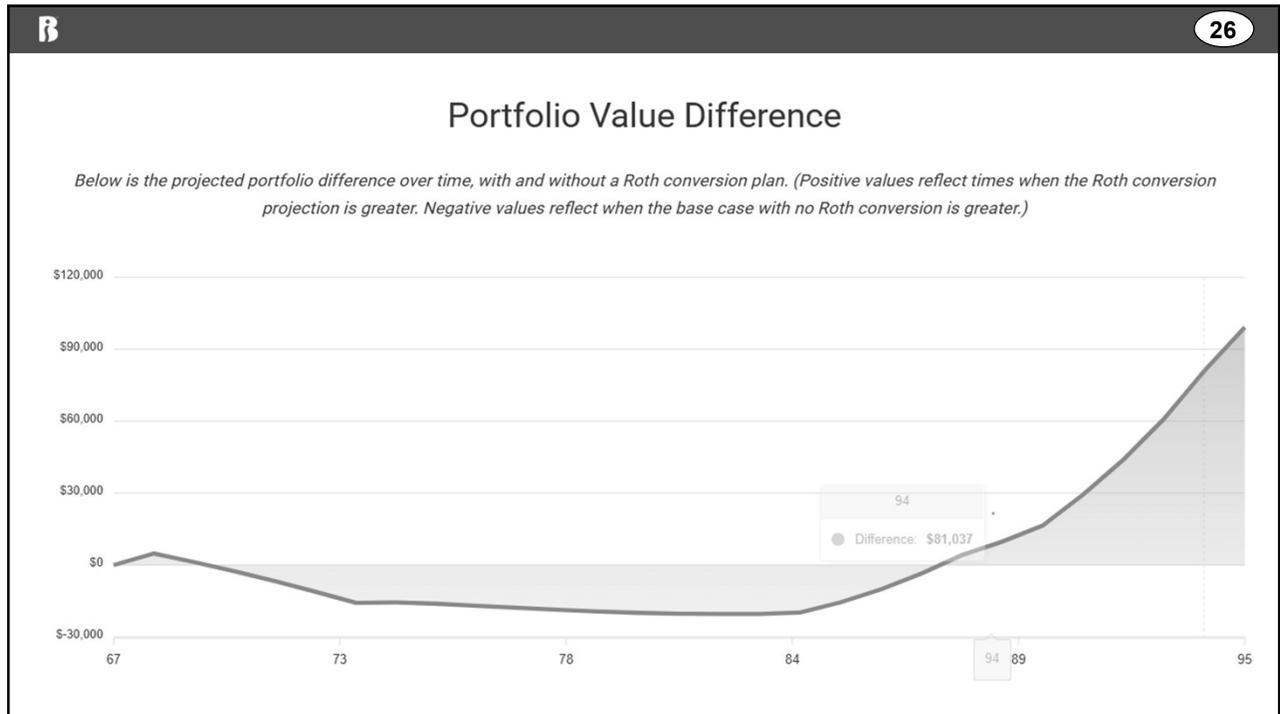
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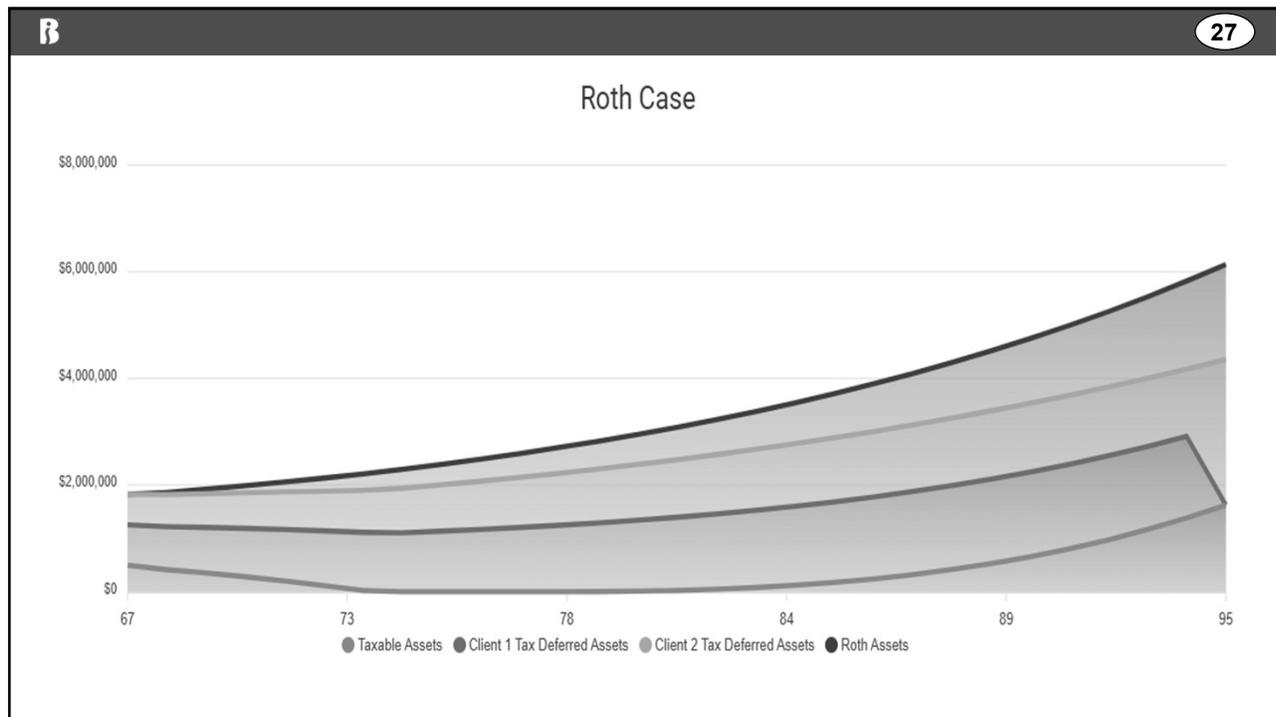
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27

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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.

28

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.



29

Questions



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32

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32

B 33



Save the Date

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



33

B 34



Email Questions or Comments to a Presenter...



Email Subject Line: Roth Conversion Consortium class

Presenter: Christi Powell
Email Addr.: cpowell@falconfinancialok.com



34