seeing a steady stream of conversions to Roth IRAs. As long as Congress doesn't clamp down on the rules, you can expect for this trend to continue.

Ken Berry • Jun. 27, 2014

Although it's been almost five years since the floodgates were opened, we're still seeing a steady stream of conversions to Roth IRAs. As long as Congress doesn't clamp down on the rules, you can expect for this trend to continue.

A Roth IRA offers the lure of tax-free payouts in the future plus an exemption from the rules requiring mandatory lifetime distributions from the IRS. Now that it's become clear that Roths are costing the government money, there's been some talk of scaling back or repealing the benefits. For many clients, it could be a case of "now or never." But be aware that a Roth conversion isn't right for everyone.

First, let's review some basic principles. Generally, contributions to a regular IRA may be wholly or partially tax-deductible, especially in the earlier part of your career, but distributions are taxed at ordinary income with a high-water rate of 39.6% in your prime-earning years. Also, you must begin taking required minimum distributions (RMDs) from the IRA in the year after the year you turn age 70 ½.

Conversely, contributions to a Roth can't be deducted, but post-age 59 ½ distributions made after five years are completely tax-free, while earlier payouts may be wholly or partially tax-free under rules treating the amounts as coming first from nondeductible contributions. What's more, Roths are exempt from the RMD rules during your lifetime so you can preserve more of your nest egg if you want.

Prior to 2010, you could not convert to a Roth if your adjusted gross income (AGI) for the year exceeded $100,000. But the bar has been permanently lifted. Currently, a

Roth conversion is available to everyone regardless of their AGI, increasing the

whether you have independent funds to pay the current tax, if you need to take RMDs in retirement and any other extenuating circumstances.

It’s a no-brainer if you anticipate inheriting a windfall in retirement that will put you in a significantly higher tax bracket than you are now. Obviously, you should go ahead and convert. However, if you don’t have the cash on hand to pay the current tax without eroding your IRA funds and you figure you’ll be in a much lower tax bracket in retirement, it usually doesn’t make sense to convert.

A plethora of online calculators will do all the grunt work for you, but they are hardly foolproof and frequently ignore some of the variables or intangibles. Before you advise a client to convert or not, conduct a comprehensive review of the family’s situation. Then you can crunch the numbers and deliver a sound and well-reasoned opinion.

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