

THE CLOCK IS TICKING ON 2022 CONVERSIONS

Monday, October 24, 2022

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Fall is in full swing now with football, foliage, and pumpkin spice everything. The holiday season is just around the corner. Before we know it, the year 2022 will come to an end. If you are considering converting an IRA to a Roth IRA in 2022, the clock is ticking. Here is what you need to know when making this decision:

December 31, 2022 Deadline

The deadline for 2022 conversion is the end of the calendar year. There is a common misconception that a conversion can be done up until the client's tax-filing deadline. That is NOT the case. There is no such thing as prior year conversion. The distribution must be taken in 2022 and reported on a 2022 Form 1099-R. It is best not to wait until the last minute. Be sure to leave enough time to get the transaction done.

Trading a Tax Bill Now for Tax-Free Gains Later

If you convert your traditional IRA to a Roth IRA in 2022, your pretax traditional IRA funds will be included in your income for 2022. This will increase your 2022 income which may impact deductions, credits, exemptions, phase-outs, the taxation of your social security benefits, and Medicare Part B and Part D premiums; in other words, anything on your tax return impacted by an increase in your income. That is a tax hit for sure, but keep it in perspective. Remember, the extra income would only be for 2022, the year of the conversion. The trade-off is the big tax benefit down the road. If you follow the rules for qualified Roth IRA distributions, all your Roth IRA funds, including the earnings, will be tax-free when distributed to you.

Tax rates are historically low, but these rates will not be here forever. There is a window of opportunity to take advantage of them. The lower tax rates are

temporary and scheduled to sunset in a few years. While no one can say for sure what the future will bring, the federal government's large deficits make much higher future tax rates a likely possibility. Converting now is a way to lock in the low rates of 2022 and avoid worries about the uncertainty of future taxes.

Good Advice is a Must

The decision on whether to convert your traditional IRA to a Roth IRA in 2022 is a big one. There is not one answer for everybody. Conversion is definitely not a one-size-fits-all proposition.

Recharacterization of Roth IRA conversions no longer available. This means you will need to be sure that conversion is the right move for you because there is no way to undo the transaction. Your 2022 conversion will be irrevocable.

Not sure what is right for you? Consulting with a knowledgeable tax or financial professional is a great place to start.

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