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## The Final Recharacterization of Roth IRA Conversions - Don't Let This Planning Opportunity Pass by You... And Your Clients!

By now, you should be aware that the Tax Cuts and Jobs Act eliminated the ability to recharacterize Roth IRA conversions, beginning January 1, 2018. The IRS later announced that any Roth IRA conversions completed in 2017 could still be recharacterized under the "old" rules. This means that **this year will be the last chance to ever undo a Roth IRA conversion.**

With the October 15<sup>th</sup> deadline for the recharacterization of 2017 Roth IRA conversions just over the horizon, *now is the time* to review the recharacterization rules and determine which of your clients could benefit from this last go-round. There are several reasons why a client might want to reverse a 2017 Roth IRA conversion, such as:

- The value of the investments in the converted Roth IRA has decreased since the date of the conversion
- The client does not have enough cash to pay the taxes resulting from the conversion
- The client earned more taxable income than originally anticipated and/or the additional income from the Roth IRA conversion bumped the client into a higher federal income tax bracket

To recharacterize, the client must transfer the converted amount, plus the net income or loss attributable, by October 15, 2018. Any assets that are recharacterized can be later reconverted back to a Roth IRA. However, you have to wait more than 30 days after the recharacterization to reconvert the recharacterized assets.

Now is the time to review the recharacterization rules and determine which of your clients could benefit from this last go-round.

### Mechanics

Let's say we have a 42-year old client named Alice, who in 2017 converted \$60,000 from her traditional IRA to a Roth IRA. Alice is a single woman who earned \$80,000 in 2017. Normally, this would put her in the 25% tax bracket. However, the additional income from the Roth IRA conversion increased her taxable income to \$140,000, thereby placing her in the 28% tax bracket. Before including deductions, credits, and/or the personal exemption, Alice's effective tax on the 2017 conversion is laid out on the following page.

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