ED SLOTT'S
IRA ADVISOR
20th ANNIVERSARY
FEBRUARY 2018
Tax & Estate Planning For Your Retirement Savings

WHAT'S INSIDE?

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10 Ways the Tax Cuts and Jobs Act of 2017 Affects IRA Planning

The Tax Cuts and Jobs Act of 2017 (TCJA), which became effective on January 1, 2018, enacts provisions that affect IRAs both directly and indirectly. Here are 10 IRA planning strategies to address with clients, based on the TCJA changes.

1. Roth IRA Recharacterizations

TCJA abolishes recharacterization of Roth IRA conversions made in 2018 and later years. It still permits recharacterizations to reverse Roth IRA conversions made in 2017, with an October 15, 2018, deadline for doing so. *But Roth IRA conversions made in 2018 and later are final.*

Reversing a conversion is a strategy to use if investments in a Roth IRA declined in value after a conversion, to avoid paying tax on value no longer in the IRA. The IRA can then later be reconverted back to a Roth IRA with the tax due based on only its newer lower value. Partial recharacterizations can "fine tune" conversions to keep the taxable income resulting from a conversion within a desired tax bracket.

This is the last year during which these recharacterization strategies can be used. Going forward, making a Roth conversion requires putting more effort into considering these valuation and tax bracket factors in advance, as there will be no do-overs or second chances.

However, the recharacterization strategy isn't going away entirely. It remains possible to recharacterize annual contributions to a Roth IRA (of up to $5,500, or $6,500 if age 50 or over) to traditional IRA status, and vice versa, from traditional IRA to Roth status, by the October 15th date.

> It [TCJA] still permits recharacterization to reverse Roth IRA conversions made in 2017, with an October 15, 2018, deadline.

2. Back Door Roth IRA Conversions

The new tax law confirms the legitimacy of the "back door" method of moving funds into a Roth IRA when income limits prevent regular contributions to a Roth IRA. Eligibility to make a regular $5,500 (or $6,500) Roth IRA contribution phases out in 2018 as modified adjusted gross income (MAGI) rises from $120,000 to $135,000 on a single tax return; $189,000 to $199,000 on a joint return; and $0 to $10,000 on a separate return. But no such income limit applies to prevent contributions to a