



A 2026 DECISION GUIDE

Should You Do a *Roth* Conversion?

A plain-English framework for deciding whether converting your traditional IRA to a Roth makes sense — covering timing, your tax bracket, break-even math, the inherited-IRA 10-year rule, and the one mistake that quietly shrinks every conversion.

WHAT'S INSIDE

- 01** Age & the timing window
- 02** Your income & tax bracket
- 03** The break-even math
- 04** The inherited-IRA 10-year rule
- 05** Never withhold the tax
- 06** Outlier years & offsets

2026 EDITION

ranchcap.com

Prepared by Ranch Capital Advisors

A math problem wrapped in a timing problem

A Roth conversion is one of the most powerful — and most misunderstood — moves in retirement planning. With the topic trending across social media, we're fielding the same question from more clients than ever: *should I convert my traditional IRA to a Roth, and if so, how much and when?*

Done in the right year, at the right amount, a conversion can save a household — and its heirs — a significant amount in lifetime taxes. Done reflexively because it's popular, it can hand the IRS money you never needed to pay. This guide walks through the real decision factors so you can tell which situation you're in.

The short version. A Roth conversion makes the most sense when you can pay the tax at a **lower rate today** than you (or your heirs) would pay later, when you can pay that tax from **outside the IRA**, and when you have **years for tax-free growth** to compound. It makes the least sense when converting pushes you into a higher bracket, spikes Medicare premiums, or drains the cash you'd need to pay the tax efficiently.

What a Roth conversion actually is

A Roth conversion moves money from a pre-tax account — a traditional IRA, or sometimes a 401(k) — into a Roth IRA. You pay ordinary income tax on the amount you convert *this year*, and in exchange the money grows tax-free and comes out tax-free in retirement. Three features make Roth dollars valuable:

- ◆ **Tax-free growth and withdrawals** once the account is qualified (generally age 59½ and a five-year holding period).
- ◆ **No required minimum distributions (RMDs)** for the original owner. Traditional IRAs force taxable withdrawals starting at age 73; Roth IRAs never force the owner to take a dime.
- ◆ **Tax-free inheritance.** Heirs still must empty an inherited Roth, but they do it without owing income tax — a distinction that has become far more important under current law.

Unlike Roth *contributions*, Roth *conversions* have no income limit. Anyone with a pre-tax balance can convert. That's exactly why the decision deserves care: the door is open to everyone, but it isn't the right door for everyone.

Time is the engine — and the gaps are the prize

Age matters less because of any single birthday and more because of the *gaps* it creates in your income.

- ◆ **The “gap years” are the prize.** For many people, the lowest-income years of their lives fall between the day they stop working and the day RMDs and Social Security begin. Retire at 63 and delay Social Security to 70, and you may have several low-income years — often the best conversion years you’ll ever get, before RMDs force your income back up.
- ◆ **Watch the Medicare cliff at 63.** Medicare premiums (IRMAA surcharges) are based on your income from *two years prior*. A large conversion at 63 or 64 can raise your Part B and Part D premiums at 65 and 66 — a real, often-overlooked cost that belongs in the math.
- ◆ **Under 59½? Be careful.** Each conversion starts its own five-year clock before the converted principal can be withdrawn penalty-free. And if you pay the conversion tax out of the IRA before 59½, that amount can trigger a 10% early-withdrawal penalty (see Section 05).
- ◆ **The longer the runway, the better.** A conversion at 55 has decades to work; one at 80, purely for your own benefit, has far less time to overcome the upfront tax cost — though it may still make sense for your heirs.

Convert when today’s rate beats tomorrow’s

This is the heart of the decision: **convert when your tax rate today is lower than the rate you expect to pay later.** Here are the 2026 federal brackets (inflation-adjusted by the IRS; the seven-rate structure was made permanent by the One Big Beautiful Bill Act).

Rate	Single — taxable income	Married Filing Jointly — taxable income
10%	\$0 – \$12,400	\$0 – \$24,800
12%	\$12,401 – \$50,400	\$24,801 – \$100,800
22%	\$50,401 – \$105,700	\$100,801 – \$211,400
24%	\$105,701 – \$201,775	\$211,401 – \$403,550
32%	\$201,776 – \$256,225	\$403,551 – \$512,450
35%	\$256,226 – \$640,600	\$512,451 – \$768,700
37%	\$640,601+	\$768,701+

2026 standard deduction: \$16,100 single, \$32,200 married filing jointly, \$24,150 head of household. Taxpayers 65+ get an additional standard deduction and, through 2028, a separate “senior” deduction of up to \$6,000 per qualifying filer that phases out at higher incomes.

The strategy most planners use is **“filling up a bracket.”** Rather than converting a whole IRA at once, you convert just enough to reach the top of a target bracket — commonly the top of the 12%, 22%, or 24%. Notice the jump from 24% to 32%: for many married couples, the top of the 24% bracket (about \$403,550 of taxable income in 2026) is a natural ceiling, because the next dollar costs eight percentage points more.

But the bracket cost isn’t the only cost. Conversion income raises your AGI, which can increase the taxable portion of Social Security, expose investment income to the 3.8% Net Investment Income Tax (\$200,000 single / \$250,000 married, not indexed for inflation), push long-term capital gains out of the 0% bracket, and — for early retirees — reduce ACA subsidies. The bracket table is where you start, not where you stop.

When does a conversion actually pay off?

There are really two break-even questions, and they're often confused.

- ◆ **The tax-rate break-even.** The simplest and most important. Convert at 22% today and withdraw later at 22%, and it's roughly a wash. Convert at 22% and withdraw at 32%, and you win. Convert at 32% to avoid a future 22%, and you lose. A conversion only creates value when there's a *rate difference* in your favor.
- ◆ **The time break-even.** This matters when you can't pay the tax from outside funds. Pay it from the IRA and you've shrunk the account; it then takes years of tax-free growth to catch up — often a decade or more. That's why conversions late in life, paid from the IRA itself, frequently don't break even for the original owner.

Hypothetical illustration — for education only. A married couple, both 64, fully retired, with \$1.2M in a traditional IRA and no other income yet. They convert enough each year to fill the top of the 24% bracket and pay the tax from a taxable brokerage account, so the entire converted amount lands in the Roth. They repeat this through several “gap years” before RMDs and Social Security begin. By the time RMDs would have started, a large share of the IRA has moved to a Roth that will never force a distribution and will pass to their children income-tax-free. Whether this fits any individual depends entirely on their full financial picture.

The rule that changed the conversation

The old “stretch IRA” let most heirs draw an inherited IRA down slowly over their own life expectancy. That’s gone. Under the SECURE Act and the IRS’s **final regulations issued in July 2024**, most non-spouse beneficiaries (typically adult children) must **empty an inherited IRA within 10 years** of the original owner’s death. If the owner had already started RMDs, the heir must *also* take annual distributions in years 1–9. The penalty for a missed distribution is a 25% excise tax (reducible to 10% if corrected promptly), and **enforcement began with the 2025 distribution year** after a multi-year grace period.

Here’s why that makes conversions more compelling. Leave a large *traditional* IRA to a child in their peak earning years, and they’re forced to pull it out over 10 years — every dollar stacking on top of their salary, potentially at 32%, 35%, or 37%. A 10-year forced drawdown can push a high-earning heir into the highest brackets of their life.

Convert to a *Roth* during your own lower-income years instead, and your heir still faces the 10-year rule — but the distributions are **tax-free**. They can let the Roth grow untouched for the full decade and withdraw the entire, larger balance at the end without owing income tax. The conversion effectively lets *you* pay the tax once, at your lower rate, instead of your heir paying it repeatedly at theirs.

Eligible designated beneficiaries — surviving spouses, the owner’s minor children (until majority), disabled or chronically ill individuals, and beneficiaries not more than 10 years younger than the owner — are exempt from the 10-year rule. For everyone else, that 10-year clock is now a central reason to consider moving money to the Roth side while you’re alive.

The one mistake that shrinks every conversion

If you take one tactical point from this entire guide, take this one: **don't have taxes withheld from the conversion itself. Pay the tax from outside money so that 100% of the converted amount actually lands in the Roth.**

Say you convert \$100,000 and instruct the custodian to withhold 24% for taxes. Only \$76,000 reaches the Roth — the \$24,000 sent to the IRS was a distribution that *did not get converted*. You've permanently lost the tax-free growth on that \$24,000. And if you're under 59½, that withheld amount is treated as an early withdrawal and can be hit with a 10% penalty on top of the income tax.

Convert the full \$100,000 and pay the \$24,000 from a checking or taxable brokerage account, and the entire \$100,000 compounds tax-free for the rest of your life. The clean way to handle the taxes:

- ◆ **Pay from taxable (non-retirement) funds** — a brokerage account, savings, or a maturing CD.
- ◆ **Cover the liability with quarterly estimated payments**, or rely on safe-harbor rules so you don't owe an underpayment penalty.
- ◆ **Use it as a sizing test:** if you don't have the cash to pay the tax without dipping into the IRA, that's often a sign the conversion is too large for this year. Convert less, or spread it across more years.

The best opportunities are situational

The best conversion years are often the unusual ones. When income unexpectedly drops or a large deduction is available, you can convert at a low — sometimes near-zero — effective rate. Watch for:

- ◆ **A low-income year.** Early retirement, a sabbatical, a job change, a year between businesses, or low self-employment income all open the door.
- ◆ **Deductible business losses.** A net operating loss or a year of large deductible business expenses can offset conversion income dollar-for-dollar — effectively letting you convert at a steep discount. Coordinate with your CPA, since the interaction with NOL carryforwards and basis rules can get technical.
- ◆ **A large charitable deduction.** A big gift in a single year — “bunching” several years of giving, or funding a donor-advised fund with a lump sum — creates an itemized deduction that can offset conversion income that year. (A Qualified Charitable Distribution is different: it reduces traditional-IRA RMD income directly but doesn’t create a deduction to offset a conversion. A funded gift to a donor-advised fund does.)
- ◆ **Years with unusual medical or other deductions** that temporarily push taxable income down.

The theme is the same in every case: when a deduction or a low-income year temporarily lowers your rate, you can move more money to the Roth side for less.

When a conversion is probably *not* the right move

Balance is part of good planning. A conversion is often the wrong call when:

- ◆ Converting would push you into a meaningfully higher bracket than you’ll face in retirement.
- ◆ You’d have to pay the tax out of the IRA itself (especially under 59½).
- ◆ You expect a *lower* bracket later — e.g., a high earner now who will retire to a low-tax state on modest income.
- ◆ You plan to leave IRA assets to charity anyway — a charity pays no income tax on an inherited traditional IRA, so converting first just prepays tax no one would have owed.
- ◆ A near-term need (Medicare/IRMAA, ACA subsidies, a financial-aid year, an imminent large capital gain) makes a higher AGI especially costly right now.

A simple decision framework

- 1 Estimate your rate now vs. later** — including your heirs' likely rate if the account is destined for them.
- 2 Find your headroom** — how much can you convert before spilling into the next bracket or tripping a threshold (IRMAA, NIIT, Social Security taxation, capital-gains brackets, ACA)?
- 3 Confirm you can pay the tax from outside the IRA.** If not, convert less.
- 4 Size the conversion to fill a bracket,** not to empty the account in one year.
- 5 Look for the outlier year** — low income, a business loss, or a large deduction — and convert more then.
- 6 Revisit annually.** A conversion strategy is a multi-year project, not a one-time transaction.

Frequently asked questions

Is there an income limit to do a Roth conversion?

No. Unlike Roth contributions, conversions have no income limit. Anyone with a pre-tax retirement balance can convert, regardless of income.

How much should I convert in a year?

There's no universal number. The common approach is to convert only enough to “fill up” your current tax bracket — often the top of the 12%, 22%, or 24% — rather than converting a large balance all at once and spilling into a higher rate.

Should I have taxes withheld from my conversion?

Generally no. Withholding means that portion never reaches the Roth (and may be penalized if you're under 59½). Convert the full amount and pay the tax from outside funds, using estimated payments to stay current with the IRS.

Does the 10-year rule apply to inherited Roth IRAs too?

Yes — most non-spouse heirs must empty an inherited Roth within 10 years. The crucial difference is that Roth distributions are tax-free, so an heir can typically let the account grow for the full 10 years and withdraw it all at the end without owing income tax.

What's the best age to convert?

There's no single best age, but the “gap years” between retirement and the start of RMDs (73) and Social Security are often ideal, because income is temporarily low. Mind the age-63 Medicare/IRMAA lookback.

Can a Roth conversion be undone?

No. Since 2018, conversions can no longer be reversed (recharacterized). That permanence is exactly why sizing the conversion correctly in the first place matters.

Let's talk it through before you convert

A Roth conversion is rarely all-or-nothing — it's usually a multi-year strategy of converting the right amount in the right years. Your bracket, other income, heirs' situation, Medicare, charitable plans, and how you'll pay the tax all move together. A conversation that models *your* numbers will tell you far more than any rule of thumb. If you'd like to see what a multi-year plan could look like for your situation, we'd welcome the conversation.

CALL

941-462-2666

EMAIL

clientservice@ranchcap.com

VISIT

ranchcap.com

IMPORTANT DISCLOSURE

This guide is provided for general educational purposes only. Examples are hypothetical and for illustration only; they do not represent the experience of any specific client. Figures reflect 2026 federal tax parameters and will change in future years. Please consult a qualified tax professional and your financial advisor before making any decisions regarding a Roth conversion.

Investment Advisory Services offered through Ranch Capital Advisors. The views expressed represent the opinions of Ranch Capital Advisors, Inc as of the date noted and are subject to change. These views are not intended as a forecast, a guarantee of future results, investment recommendation, or an offer to buy or sell any securities. The information provided is of a general nature and should not be construed as investment advice or to provide any investment, tax, financial or legal advice or service to any person. The information contained has been compiled from sources deemed reliable, yet accuracy is not guaranteed. Past performance is not a guarantee of future results.