Title: Starting a Roth IRA and Rolling to Roth IRA: Which Is Best

Last post (link to it here), we talked about the differences between a Roth IRA and a traditional IRA. Now that you know the basics, we’re going to cover how to set up a Roth IRA. There are two basic ways to achieve this; starting and funding a Roth IRA or doing a Roth IRA conversion.

Starting and funding a Roth IRA works best for you if you have the funding to pay taxes up front and fall within the income parameters, meaning if you are filing jointly, your combined annual income is less than $203,000 and if you’re filing single, your annual income is less than $137,000. And since you paid your taxes when you invested, you won’t pay taxes on withdrawals of your earnings.[[1]](#footnote-1)

You can also open a traditional IRA and years later, decide that you want to convert to a Roth IRA. Typically, people do this if they don’t meet the annual income maximum to initially open a traditional IRA. The new tax laws make this conversion a little easier to navigate. There are three ways you can make this conversion:

1. **Rollover.** This applies when you receive a distribution from a traditional IRA and move it to a Roth IRA within 60 days of receiving it.
2. **Trustee-to-trustee transfer**. This is when you work with the IRA institutional holder and ask them to transfer the money to the trustee of your Roth IRA at a different institutional holder, typically through a check paid to the new trustee.
3. **Same trustee transfer**. If you have the same financial institution for your traditional and Roth IRA, you can instruct the trustee to transfer an amount from your traditional to your Roth IRA.[[2]](#footnote-2)

One big caveat is that transferring money from a traditional IRA to a Roth IRA can result in tax payments for untaxed amounts from the traditional IRA account.

Making the decision about how to covert to a Roth IRA, and why, is something you should discuss with your certified financial advisor.

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If you have not taken the steps to Create The Life You Love®, or if you would like to review your plan, Jonathan P. Bednar, II, CFP® may be reached at 865-251-0808 or Jonathan@ParadigmWP.com [www.ParadigmWealthPartners.com](http://www.ParadigmWealthPartners.com)

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1. “Amount of Roth IRA Contributions That You Can Make For 2019.” *Internal Revenue Service*, www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2019. [↑](#footnote-ref-1)
2. IRA FAQs - Rollovers and Roth Conversions. (n.d.). Retrieved from https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-rollovers-and-roth-conversions [↑](#footnote-ref-2)