Roth Conversion and DAF are a Great Pairing

A **partial Roth conversion** combined with a **donor-advised fund (DAF)** can be an extremely tax-efficient strategy.

By converting only a portion of your retirement savings and making a charitable contribution to a DAF in the same year, you can potentially reduce your taxable income and lower your tax liability for the year of the conversion while accomplishing your portfolio goals around converting IRA funds to Roth.

This strategy allows you to manage your tax bracket, minimize the tax impact of Roth conversions, and simultaneously fulfill your charitable giving goals.

Why it's a good strategy:

Manage Your Tax Bracket:

A primary benefit of doing a partial Roth conversion is to manage your taxable income more strategically. By converting only a portion of your retirement savings, you can control how much income you report each year, potentially maximizing a lower tax bracket.

Offset Taxes with DAF:

By donating to a DAF in the same year as the Roth conversion you can offset the taxes you'll owe on the conversion. Since charitable contributions to a DAF are deductible, pairing these tools is a great way to reduce the overall tax burden.

Flexibility:

You don't need to do a full Roth conversion all at once. The partial conversion approach lets you spread out the tax impact of Roth conversions over multiple years, while you also make charitable contributions in each of those years to help reduce your taxable income, while allowing you to distribute the DAF to the charities you wish to support over time.

Here is what this can look like:

Step 1: You convert part of your Traditional IRA to a Roth IRA, triggering a taxable event, where the amount converted is added to your taxable income for that year.

Step 2: You then make a charitable donation to a DAF.

Step 3: The donation to the DAF is tax-deductible, and it can help offset the taxes incurred from the Roth conversion.

This is a great strategy in years where:

- Taxable income is relatively low.
- You're already considering a Roth conversion.
- You're strategizing to maximize a lower tax bracket

We invite you to look at how Mike and Julie Snapp were able to ease the tax impact of IRA conversions to Roth IRAs using this strategy.

Mike and Julie Snapp are in a later stage of life. They're both 75 and they're looking for ways to reduce their ongoing tax burden in retirement. As such, they are thinking about converting their $3 million IRA to a Roth IRA. However, converting the entire IRA would create an additional $1,018,000 income tax hit in addition to a required minimum distribution (RMD) of $122,000.

A strategy with a DAF at its core offers the opportunity to reduce the Snapps' tax hit and help to fund the RMD.

The Snapps' financial advisor suggests a plan that combines the Roth Conversion, RMD, and normal charitable giving. (Mike and Julie give about $20,000 each year to their church, college, and a local museum, and they plan to significantly increase those gifts in the future.) Their advisor's suggestion: Execute a $1 million Roth Conversion and withdraw another $1.5 million from their IRA to cover their RMD and create a $1 million DAF.

Let's look at the numbers:

By establishing a $1 million DAF, the Snapps reduced their income tax liability by $533,000 while funding their Roth conversion. Their DAF not only covered immediate needs but also created a lasting charitable fund to support the causes they care about most.