

LONG TERM CAPITAL GAINS TAX RATES

Tax Rate	Single	Joint	Head of Household
0%	\$0 to \$40,000	\$0 to \$80,000	\$0 to \$53,600
15%	\$40,001 to \$441,450	\$80,001 to \$496,600	\$53,601 to \$469,050
20%	\$441,451 and up	\$496,601 and up	\$469,051 and up

Example:

If you are single, you will pay zero capital gains tax if your total taxable income is no more than \$40,000. You will pay 15% on capital gains if your taxable income is \$40,001 to \$441,450. If your Taxable Income is above that income level, the rate is 20%. In addition, capital gains may be subject to the Net Investment Income Tax (NIIT) of 3.8% if income is above certain amounts.

Consider Converting to a Roth IRA

The first question is deciding if converting your Traditional IRA or 401K to a Roth IRA is a good idea. The benefits include tax and penalty-free distributions, both of which generally kick in once you're 59 and have met the five-year holding requirement. In addition, Roth's offer estate planning advantages. For example, unlike traditional IRAs, you are not required to withdraw specified amounts from a Roth each year once you reach age 70. The same is true when your spouse inherits the account as your designated beneficiary.

The conversion to a Roth does have a cost. When you have no basis in your traditional IRA—for instance, you deducted your original contributions on prior tax returns—you will have to add the entire amount converted to your taxable income. That is a reason to start planning now, since the increase in income could have tax and nontax implications, such as reducing itemized deductions or affecting college financial aid.

There is another way Tax Rates can affect your decision about converting. Say you intend to relocate to a state with low or no-income tax, and you expect the move to reduce your overall tax rate. In that case, you may decide to delay or forgo making a conversion.

I have got one final tip. If your income in 2020 was more than \$137K (\$203K if married), you are not eligible to make a regular 2020 Roth "Contribution". Your only option therefore is to make a Contribution to a non-deductible "Traditional IRA". You could subsequently immediately convert your 2020 traditional IRA contribution to a Roth IRA and pay no taxes on the conversion since your basis (the amount of your contribution) will likely be equal to the amount you converted. It is a nice little work around that essentially enables you to accomplish your goal of funding a Roth IRA.