2021 · WHAT WILL HAVE THE least TAX IMPACT: HARVESTING CAPITAL GAINS OR ROTH CONVERSIONS?

TrueWealth Advisors, LLC

Start Here

Will you not need the income or assets from your retirement accounts, and instead wish to transfer such assets to your heirs?

Yes

Consider the future tax brackets of your heirs in addition to your own.

No

Are you in the 0% tax bracket this year?

Yes

Do you have negative taxable income (i.e., your deductions exceed your income)?

Yes

Consider doing Roth conversions to use any deductions that will be permanently lost and to fill the 0% bracket.

No

Consider doing Roth conversions until you fill the 0% bracket.

No

Are you receiving Social Security retirement benefits, and will harvesting LTCGs cause your combined income to rise above $25k ($32k if MFJ)?

Yes

Consider harvesting LTCGs until your income reaches $40k ($80k if MFJ).

Harvested LTCGs would be taxed at 0% versus 10% or 12% if Roth conversions are done.

No

Are you in the 10% or 12% tax bracket this year?

Yes

Are you charitably inclined or inclined to hold appreciated securities until you pass away?

Yes

Consider doing Roth conversions. The LTCG in your taxable investment accounts will be eliminated if they are donated to charity or if held until your passing.

Be mindful of state tax implications.

No

Consider harvesting LTCGs until your income reaches $40k ($80k if MFJ).

Harvested LTCGs would be taxed at 0%, but you may be subject to the phase-in of income tax on your Social Security benefits.

It is likely still more tax-efficient to harvest LTCGs than to do Roth conversions.

No

Are you in the 22% or 24% tax bracket this year?

Yes

Consider doing Roth conversions until you fill up the 22% or 24% tax bracket.

This may reduce your risk of reaching the 32% tax bracket in the future.

No

You are in the 32%, 35%, or 37% tax bracket this year...

Consider harvesting LTCGs from your taxable investment accounts.

Harvested LTCGs would be taxed at 15% or 20%, versus the 32%, 35% or 37% that would apply to Roth conversions.

When MAGI is over $200k ($250k if MFJ), LTCGs will be subject to the NIIT, an additional 3.8% Medicare surcharge.

When MAGI is over $87k ($174k if MFJ), you may be subject to IRMAA surcharges in two years. See the "Will I Avoid IRMAA Surcharges On Medicare Part B & Part D?" flowchart for details.

Be mindful of state tax implications.

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