

A background image of a man and a woman sitting at a table, looking at a tablet together. The man is on the left, wearing a blue shirt, and the woman is on the right, wearing a patterned shirt. They are both smiling. The image is dark and serves as a background for the top right section of the page.
HW

COREY SUNSTROM, CFP®

DIRECTOR OF FINANCIAL PLANNING

Supercharging Roth Conversions with Charitable Giving

This past weekend, me and a couple of buddies spent 2 days backpacking roughly 22 miles around Mount Rogers in southwest Virginia. We followed sections of the Appalachian Trail through blooming rhododendron tunnels, crossed open highland meadows filled with wild ponies, and managed to whip our legs into shape during the process. We typically plan these trips well in advance, so it's really nice when you pull the rarest backpacking card of them all: perfect weather and temps in the 40's-70's. There's nothing quite like hanging on to your sleeping bag for a few extra minutes in the morning, sipping instant coffee to stay warm, and ending the day with a sweat after climbing that last hill. There's a few of you that know exactly how amazing this feels.

The same people that understand this feeling, also know struggle we have with weight. Not our body weight, but the weight of everything you are hauling on your back.

When I first started backpacking years ago, there was nothing in my house I didn't need. Every pot and pan, flashlight, battery pack, comforter, and microwave was thrown in the pack just in case, I don't know, the apocalypse happened. Our first trip was the Zion Traverse (because, you know, go big or go home), and it only took ten hours of uphill hiking to gain a whole new perspective of the outdoors.

After enough trips, you start weighing literally everything. You discover there are entire corners of the internet dedicated to debating whether a titanium spoon is worth saving half an ounce. Rational people become completely unhinged over the weight issue...and that's how I got my pack from 45lbs to 25lbs over the years.

What I've learned is that backpacking isn't about adding comfortable, luxurious items to my pack. It's about figuring out what you can remove without sacrificing the experience. Nobody reaches mile 15 wishing they had packed more stuff. The biggest gains usually come from eliminating the things that were weighing me down in the first place.

Financial planning tends to work the same way. When we're building wealth, most of our focus is on accumulation. We spend decades adding. More savings, more investments, and more retirement accounts. And at some point, we've added so much they we're not quite sure what's in our "pack."

As retirement approaches, some of the most valuable planning opportunities aren't about finding another investment or chasing a higher return. They're about identifying unnecessary drag and removing it. One of those big pesky things in our retirement picture is taxes.

We talk about taxes relentlessly in our practice, but one of my favorite examples of reducing the drag is pairing charitable giving with Roth conversions. We get to unload taxable assets now without having to be on the hook for a big bill, and we also reduce the future tax liability that looms ahead of us and our beneficiaries.

Let's start with the years before Required Minimum Distributions enter the picture.

Many of the families we work with are in a unique position during their 60s and early 70s. Their income has often declined after retirement, but their IRA balances are still substantial. In other words, they're standing in a relatively favorable tax environment before the IRS eventually forces larger distributions later in life.

Those years can create an excellent opportunity for Roth conversions.

The challenge, of course, is that every dollar converted is generally taxable. Convert \$100,000, and you've potentially added \$100,000 of income to your tax return. That's not necessarily a bad thing if we're converting at attractive tax rates, but nobody enjoys writing a larger check to the IRS than necessary.

This is where charitable planning can become incredibly powerful.

Suppose you've accumulated a highly appreciated stock position over the years. Maybe it's a company you worked for, a fund you've owned forever, or simply an investment that has done exceptionally well. Selling those shares would likely create a sizable capital gain. Instead, you can transfer the appreciated shares directly into a Donor-Advised Fund.

The charity receives the full value of the shares. You potentially receive a charitable deduction. And perhaps most importantly, neither you nor the charity pays capital gains tax on the appreciation.

Think about what we've accomplished. We've removed a concentrated position from the portfolio, avoided realizing capital

gains, fulfilled future charitable intentions, and created a deduction that may help offset income generated from Roth conversions. One decision starts solving multiple problems simultaneously.

I often tell clients that good planning is rarely about finding one magical strategy. It's about getting several pieces of the puzzle to work together. A Donor-Advised Fund paired with Roth conversions is one of those situations where the whole can become greater than the sum of its parts.

Then the strategy evolves once Required Minimum Distributions begin.

By the time many retirees reach their mid-70s, the conversation often changes. The IRA has continued growing for decades. Required distributions start arriving whether you need the income or not. Every dollar distributed shows up on your tax return, potentially increasing Medicare premiums, affecting taxation of Social Security benefits, and creating additional tax drag throughout retirement.

For charitable families, this is where Qualified Charitable Distributions become one of the most elegant planning tools available.

Rather than receiving your Required Minimum Distribution, paying tax on it, and then writing a check to charity, the IRS allows eligible individuals to send money directly from their IRA to qualified charities. The distribution satisfies part or all of the Required Minimum Distribution requirement, but it never appears in adjusted gross income.

That's a subtle distinction with a potentially meaningful impact.

Imagine your Required Minimum Distribution is \$50,000 and you already planned to donate \$50,000 this year. Without a QCD, the full distribution increases your taxable income and then you make your charitable gift. With a QCD, the money moves directly from the IRA to the charity, satisfying your

charitable goal while keeping that \$50,000 off your tax return altogether.

In backpacking terms, it's like removing ten pounds from your pack before you start climbing instead of carrying it all day and dropping it off at camp that evening. The destination is exactly the same, but the journey becomes considerably easier.

What makes this especially interesting from a Roth conversion perspective is that every dollar of income removed through a Qualified Charitable Distribution may create additional room for a Roth conversion. Instead of allowing Required Minimum Distributions to consume valuable tax bracket space, charitable giving can help preserve that space for strategic conversions.

The result is a combination that many retirees find appealing. You're supporting causes you care about. You're reducing future Required Minimum Distributions. You're creating more Roth assets that can grow tax-free. And you're potentially leaving beneficiaries a more tax efficient inheritance down the road.

Just like backpacking, the objective isn't necessarily to arrive with less. It's to arrive carrying less of what you don't need.

HW

Hobart Wealth is a DBA of Hobart Private Capital, LLC. Investment advisory services offered through Hobart Private Capital, LLC, an SEC-Registered Investment Adviser. Insurance services offered separately through Hobart Insurance Services, LLC, an affiliated insurance agency. This material is for educational purposes only and is not individualized investment, tax, legal, estate, insurance, Medicare, real estate, or financial advice. Hobart Private Capital, LLC and its affiliates are not certified tax or legal advisors. Tax laws, estate laws, Medicare rules, contribution limits, and retirement account rules are subject to change and depend on individual circumstances. Investing involves risk, including possible loss of principal. No strategy can guarantee a profit, protect against loss, reduce taxes, lower Medicare premiums, or guarantee any tax, retirement, estate, insurance, or financial outcome. Consult qualified tax, legal, Medicare, insurance, or financial professionals before making decisions.