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CASE STUDY |

STRATEGIC TAX & RETIREMENT PLANNING

A Roth Conversion That Didn't Have to Come With the Usual Tax Bill

How ClearSky CPA combined a $61,000 valuation advantage with qualifying oil and gas deductions to offset a business owner's taxable Roth conversion income.

1. The Decision

A successful business owner held a private real estate investment inside a traditional IRA, originally valued at approximately $192,000.

During redevelopment, the investment was revalued at approximately $131,000, creating an opportunity to convert it to a Roth IRA at a lower taxable value.

The owner also had substantial income from operating businesses and other investments. ClearSky was evaluating several investment opportunities as part of the owner's broader tax and financial planning.

Could two seemingly unrelated investments work together to create a better long-term tax outcome?

2. What Was at Stake

The reduced real estate valuation created the first advantage: approximately **$61,000 less taxable conversion income** compared with the original valuation.

But the Roth conversion still generated approximately $131,000 of ordinary income.

For a high-income business owner, that additional income could result in a significant tax bill.

The opportunity was to manage the conversion's tax cost without selecting another investment solely for its deductions.

3. The ClearSky Approach

ClearSky evaluated the Roth conversion alongside several other investment opportunities, considering their economic merits, timing, and tax consequences.

A qualifying oil and gas investment stood out because its first-year intangible drilling cost deductions could offset ordinary income, including the income generated by the Roth conversion.

We coordinated the timing of both transactions and incorporated their combined impact into the owner's tax projections.

One strategy reduced the amount of taxable income created. The other provided deductions to offset the income that remained.

4. The Outcome

The owner completed the Roth conversion at approximately $131,000, reflecting a **$61,000 reduction in taxable conversion value** compared with the investment's original valuation.

The oil and gas investment generated approximately **$134,000 in qualifying nonpassive losses**, primarily from intangible drilling costs.

Those deductions exceeded the Roth conversion income, offsetting the conversion amount within the owner's overall ordinary-income calculation.

The real estate investment was also repositioned inside a Roth IRA ahead of its anticipated recovery following redevelopment, allowing future qualifying appreciation to receive tax-free treatment.

Two separate investments, carefully aligned, delivered a coordinated tax outcome that neither strategy could have achieved alone.

5. The Bigger Lesson

The value of an investment isn't determined by its individual tax benefits alone. It's also how those benefits interact with everything else the owner already owns.

A favorable conversion valuation and a qualifying investment deduction can be powerful independently. Coordinating their timing can make the overall strategy even more effective.

At ClearSky CPA, we help business owners evaluate opportunities in the context of their existing income, investments, and long-term objectives.

Because effective tax planning isn't just about finding good opportunities. It's about knowing how to make the right opportunities work together.



These case studies illustrate specific client circumstances and outcomes. Results vary based on individual facts, timing, and applicable tax laws. Past results do not guarantee similar outcomes. This information is for educational purposes and is not individualized tax, legal, or investment advice.



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