Have you maxed out your 401(k) contributions? Are you in an income bracket that doesn't permit you to contribute to a Roth IRA? Would you still like to make tax-advantaged contributions to a retirement account? Consider making a non-deductible contribution into a traditional IRA, and one month later, convert it to a Roth IRA. It's called the Back-Door Roth, and it's completely legit - for now, as the Back-Door Roth option could be removed per congress.

Typically, high-income taxpayers are barred from opening or making regular contributions to a Roth, as their income exceeds the IRS limits ($208,000 a year if you are married and filing taxes jointly, or $140,000 if you are a single filer*). While you can't deduct contributions to a Traditional IRA if you make over these same amounts, you can still contribute. This is where the Back-Door Roth IRA comes in.

You may be wondering, what makes a Roth IRA so special? First, with a Roth IRA, you pay taxes on your contributions up front, and from there it grows tax-free. This can be beneficial if you foresee rising tax rates in the future or believe that your taxable income will be higher after you retire. Paying your taxes up front can also mean significant tax savings over time as the distributions are not taxable. Another benefit of a Roth IRA is that you don't have required minimum distributions, so your account balance can grow as long as you're alive.

If your income exceeds the threshold for contributing to a Roth, but it's something you'd like to take advantage of, there are a few ways to go about it:

- Contribute money to a traditional IRA and roll the funds over to a Roth IRA
- Roll over an existing traditional IRA into a Roth IRA – you can roll over as much as you want at one time

Some important things to keep in mind when converting money from a traditional IRA into a Roth IRA are that you will owe taxes on the entire amount you transfer during a tax year and that most of the funds you convert to a Roth IRA could count as income. This could push you into a higher tax bracket for that year. Since the funds put into the Roth are considered converted funds rather than contributions, you'll have to wait five years for penalty-free withdrawals if you're under age 59½.

A Back-Door Roth IRA could be just what you need to bolster your plans for retirement. If this is something you'd like to consider, we'd be happy to discuss your options with you.

Notes:

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.

A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.

* "Amount of Roth IRA Contributions That You Can Make for 2021." *Internal Revenue Service*, 26 Oct. 2021, https://www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2021.