

Introduction To Backdoor Roth IRAs

A Backdoor Roth IRA is a special strategy available to people whose annual income is too high for a Roth IRA. This would ordinarily disqualify them from making Roth IRA contributions, but a Backdoor Roth IRA lets them set up future tax-free income.

Single people with a 2020 adjusted gross income (AGI) that's greater than \$139,000 (or over \$140,000 in 2021), and married couples filing jointly who made more than \$206,000 in 2020 (or over \$208,000 in 2021), are blocked from directly contributing to a Roth IRA.

If your annual income exceeds these Roth IRA thresholds, Backdoor Roth IRA conversions let you circumvent these limits and could be a good way to save more for retirement.

Here's How Backdoor Roth IRA Conversions Work:

There are no income thresholds limiting who can make nondeductible IRA contributions, although you still need to obey the annual IRA contribution limits. Anyone can convert traditional IRAs to Roth IRAs, regardless of annual income.

- First, open a new traditional IRA. Make nondeductible, after-tax contributions to it. Be sure to obey annual IRA contribution limits.
- Immediately convert it into a Roth IRA. Roll the funds from the nondeductible IRA account over into the Roth IRA.
- Check to see if you owe income taxes on converted funds. You can also do a Backdoor Roth IRA by converting deductible contributions held in a traditional IRA or a traditional 401(k) to a Roth IRA, although you may owe taxes on the money you convert. One way to minimize this is to rollover all your pre-tax contributions to an employer plan, leaving only the post-tax contributions in the IRA – then convert it!

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