

## “BACKDOOR” ROTH IRA CONTRIBUTIONS

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*“Here’s a way for high income taxpayers to fund a Roth IRA.”*

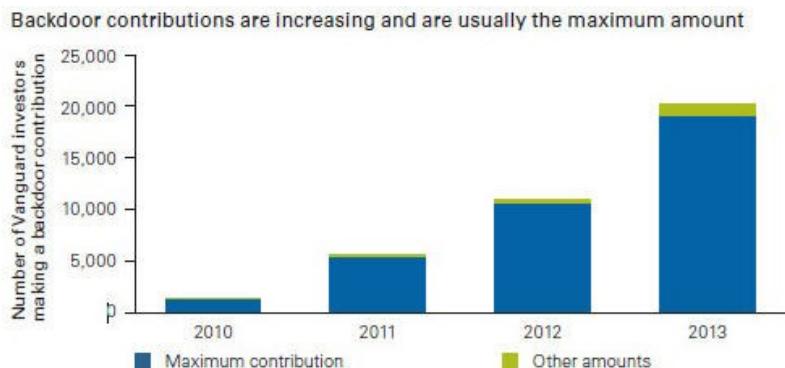
McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

**Tax Benefits of a Roth IRA:** The tax benefits of a Roth IRA are huge. All appreciation is tax-free for qualified withdrawals. In addition, unlike with a regular IRA, there are no minimum distribution requirements. In fact, Roth IRA account holders can leave all assets in their account as long as they are alive. Once the account holder dies, the beneficiaries can roll over the assets into an Inherited Roth IRA, which will allow the assets to continue to grow tax-free (although there are minimum distribution requirements for heirs).



**“Backdoor” Roth IRA Contributions:** Only taxpayers with earned income who have adjusted gross income below a certain level (for 2014, below \$131,000 for single taxpayers and \$193,000 for married taxpayers), are eligible to contribute directly to a Roth IRA. For a number of our higher-income clients, we take advantage of a quirk in the tax law for them to annually make “backdoor” Roth IRA contributions. The procedure is for the client to make a non-deductible IRA contribution, and then convert the IRA assets tax-free to his/her Roth IRA. Note: the conversion is tax-free only if they don’t have other IRA assets (so this often works best for a non-working spouse).

The chart below from Vanguard shows how popular backdoor contributions have become. In 2013, more than 20,000 Vanguard IRA investors who contributed to a traditional IRA, subsequently converted to a Roth—almost double the number from 2012:



Note: Investors were assumed to have completed a backdoor Roth contribution if they made a traditional IRA contribution and a Roth conversion in the same calendar year and the conversion was within \$1,000 of the contribution amount.

Source: Vanguard.



## Our Services

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

**Tax Services:** Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

**Other Services:** MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

**Obama's FY 2016 Budget Would Prohibit Backdoor Roth IRAs:** In the recently released budget for fiscal year 2016, President Obama proposed ending this strategy. One unintended consequence of trying to kill off backdoor Roths is that the Administration has in effect given a tacit validation to the strategy, says IRA expert and CPA, Ed Slott. The proposed prohibition would be that after December 31, 2015, only IRA assets that result in income if converted would be allowed to be converted to a Roth. Therefore, non-deductible IRA contributions would no longer be allowed to be converted.

Since the probability of the Republican-controlled Congress to approve Obama's proposed FY 2016 Budget is close to zero, for at least now, backdoor Roth IRAs will remain an effective strategy. *Please contact us if you would like to discuss whether the "backdoor" Roth IRA can work for you.*