

BACKDOOR ROTH IRA CONTRIBUTIONS

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“For certain high-income taxpayers, a “backdoor” Roth IRA contribution is a great strategy.”

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.



Roth IRAs are an increasingly popular retirement savings vehicle because they allow savers to generate tax-free income. Here are the basic tax benefits of Roth IRAs:

- Contributions are made with “after-tax” dollars.
- Qualified withdrawals are tax-free.
- There are no required minimum distributions (RMDs) for account holders.
- There could potentially be decades of tax-free growth. If someone inherits a Roth IRA, they can roll it into an Inherited Roth IRA. While there are RMDs for non-spouse beneficiaries, leaving a Roth IRA to the next generation could add many more years of tax-free growth.



Unfortunately, direct Roth IRA contributions can only be made by those whose annual income is below certain levels. In 2018 those limits are:

- \$199,000 for married couples filing jointly
- \$135,000 for single filers

For some, the solution is a “backdoor” Roth IRA contribution. Doing so is a

2-step process:

- Make a non-deductible IRA contribution (up to \$5,500 for those under age 50 or \$6,500 for those over 50). To make this contribution, you must be under age 70 ½ and either you or your spouse must have earned income at least equal to the contribution amount.

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

- Convert the IRA contribution tax-free to your Roth IRA.

Caveat: If the IRA contribution is tax deductible, then the conversion will be taxable. Also, if the Roth IRA holder has other IRA assets, when you convert money from your traditional IRA to your Roth IRA, the regulations require the Pro-Rata rule to determine how much of the conversion is tax-free.

Are Backdoor Roth IRA Contributions Legal? Although this strategy has existed since 2010, the IRS has not officially commented or provided formal guidance on whether it violates the [step-transaction rule](#). (When applied, this rule treats what are several different steps as if they were a single transaction for tax purposes.) When I last wrote about backdoor Roth IRAs in our February 2015 Monthly Commentary, I indicated that President Obama's 2016 Budget would have prohibited them. The Republican-controlled Congress did not pass Obama's proposed FY 2016 Budget, so this did not happen.

Backdoor Roth IRAs Blessed by the Tax Cuts and Jobs Act (TCJA) of 2017: TCJA was the sweeping tax bill passed in December of 2017. Though not part of the law itself, the Conference Committee's Explanatory Statement of the TCJA explicitly blesses backdoor Roth contributions. The Conference Committee confirms that backdoor Roth contributions are legal, under both prior law and the TCJA. The Explanatory Statement states four times that "Although an individual with AGI exceeding certain limits is not permitted to make a contribution directly to a Roth IRA, the individual can make a contribution to a traditional IRA and convert the traditional IRA to a Roth IRA..."

MAM Experience with Backdoor Roth IRAs: We have a number of clients for whom we assist with doing these contributions each year. Typically, it is done for the spouse who has little or no other IRA assets. We think it is an excellent strategy and highly recommend it to clients for whom it is appropriate. Please let me know if you would like to discuss your situation.