

STEPS TO COMPLETING A BACKDOOR ROTH IRA

A backdoor Roth IRA is a great strategy to implement when trying to increase the amount of savings into tax-advantaged accounts after all other's have been exhausted. That could include maxing out a 401(k), health savings account, or other retirement plans. It's also a strategy employed when income is greater than what's allowed to make a "normal" contribution to a Roth IRA. It's advantageous because Roth IRA funds grow tax-free, compared to tax-deferred (meaning they'd be taxed when withdrawn).

Step 1: Open a non-deductible IRA and a Roth IRA

If you have any traditional IRA funds already, it's important to know that completing a backdoor Roth will have tax consequences. The IRS will view the funds that are converted to a Roth from a non-deductible IRA on a "pro-rata" basis, meaning part of the conversion will be taxable. Therefore, ensure you don't have any other pre-tax IRA's or prepare for tax consequences before executing the backdoor Roth IRA strategy.

Step 2: Make a contribution to the non-deductible IRA

Everyone can make contributions to an IRA, however, if your income is greater than what the IRS allows to make the contribution "deductible" for tax purposes, then it's coded as a non-deductible contribution. If your income is also greater than the allowed amount to make Roth IRA contributions directly, that's where the backdoor Roth IRA comes into play.

Step 3: Complete a Roth Conversion with your Custodian

Once the funds have settled in the non-deductible IRA account your custodian may have a form to complete to "convert" the funds to the Roth IRA. Because the funds are already after-tax in the non-deductible IRA, there aren't any tax consequences associated with the conversion (given there aren't any other pre-tax IRA accounts).

Step 4: Invest the funds in the Roth IRA

Once the funds settle in the Roth IRA, invest them accordingly and you've successfully executed a backdoor Roth IRA!