

# *What is the* “Backdoor Roth IRA” *Strategy?*

*Prepared By*

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Modified Adjusted  
Gross Income of

**\$208,000**

MARRIED

**\$140,000**

SINGLE

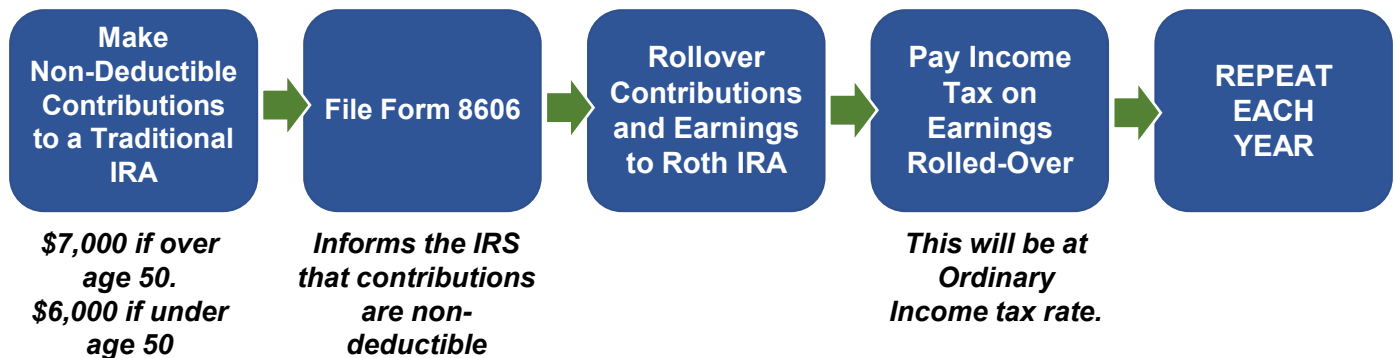
**NO ROTH IRA!**

**Roth IRAs are a great retirement savings choice because the money grows tax-deferred and is tax-free when withdrawn.**

*The problem is that if you earn too much money, you cannot establish a Roth IRA directly (the "front door"), but "going through the backdoor" is a way for people with high incomes to sidestep the income limits.*

### The "Backdoor"

The "backdoor" is found by making non-deductible contributions to a traditional IRA, and then converting / rolling-over those contributions to a Roth IRA.



You will pay income taxes on the any gains made in the traditional IRA and going forward the money grows tax-deferred.

**TAX-FREE  
WITHDRAWALS**

After the five-year waiting period imposed upon Roth IRA conversions, the money can be withdrawn tax-free.

**NO REQUIRED  
MINIMUM  
DISTRIBUTIONS**

Even better, Roth IRAs are not subject to Required Minimum Distributions beginning at age 72 to 75, so you are not forced to withdraw money if you don't need or want to do so.

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## Can it really be this simple?

For some people - yes. However, there are a number of factors that can make going through the "backdoor" a lot more complex. There are three primary issues that can make the "Backdoor Roth" strategy either more complex or not worth pursuing.

## Potential Pitfalls of the Backdoor Roth Strategy



### You already have one or more IRAs.

Rollovers from traditional IRAs to Roth IRAs have to be "pro-rata," meaning that you can't single-out one IRA for Roth rollover – the IRS says that the combined value of all IRAs is used to determine what percentage of the Roth rollover is taxable. So if your other IRAs have deductible contributions, the ratio of total deductible to non-deductible contributions will determine how much of the Roth rollover amount is taxable. The IRS applies this rule to your total IRA balances at the end of the year, not at the time of Roth conversion.

### You need to use IRA money to pay the conversion taxes.

You cannot include the taxes due as part of the conversion, so if you need to use IRA money to pay the taxes, the IRA withdrawal for conversion taxes is fully taxable (and if you are under age 59½ there is a 10% early withdrawal penalty as well).

### You will need to access the Roth IRA in less than 5 years.

Roth IRAs are subject to the "five-year rule" that says withdrawals from a Roth IRA are only tax-free after five years.

**Don't try this on your own!** Consult a tax professional if you are considering the backdoor Roth strategy. The rules of "pro-rata" that will determine how much of your conversion from a traditional IRA to the Roth IRA must be calculated with precision to ensure that you don't pay more than anticipated (and they may discover that you can avoid this rule). A qualified tax professional can also determine if the conversion will push you into a higher tax bracket resulting in more overall taxation than you anticipated. Finally, the timing of when you establish the traditional IRA and convert those funds to Roth IRA can also matter – it is worth it to let a pro make some of these calculations as well as complete the Form 8606 each year.

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*If you are considering the Backdoor Roth IRA strategy or a Roth Conversion, we can help you and we can also show you investment choices with great track records of performance.*

**I am a fully independent, fee-based investment advisor and licensed insurance professional.** This means that I am bound by the "fiduciary standard," meaning that I am bound – both legally and ethically – to work only in your best interest, not in the interest of any bank, brokerage, or insurance company.



ATUL C. DUBAL, CFP®

**I am a Certified Financial Planner® (CFP®).** This means that I have passed the highest level of competency certification available for personal and small business financial planning.


**I offer over 30 years of experience and expertise** in helping my clients achieve their financial goals. My team and I bring a rich and diverse base of experience related to tax-aware planning, retirement income planning, investment management, estate conservation, insurance, and college funding planning.

**I serve clients from a variety of backgrounds throughout the United States,** with a specialty focus upon the sometime unique needs and situations of my Indian community living and working in the U.S .

**I reside in Pleasanton, California** with Maya, my dear wife of over 30 years. We are blessed with a son and a daughter, now grown adults.

*My team and I look forward to working with you.*

Sincerely,

  
Atul C. Dubal, CFP®

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