



Self-employed? Don't overlook a Roth IRA

Some small business owners overlook Roth IRAs because they assume their income is too high for them to qualify to make Roth contributions. Others may think their current tax rate is higher than it will be in retirement, making current tax deductions more valuable than future tax-free distributions. However, if you don't at least *consider* contributing to a Roth IRA, you may be missing a potentially valuable tax-saving opportunity.

Rules and restrictions

Roth IRA contributions aren't deductible, but they're beneficial because you reap tax savings on the back end. (More on that later.) For 2026, the annual contribution limit is \$7,500 (up from \$7,000 for 2025). If you'll be 50 or older by the end of the tax year, you can make an additional \$1,100 catch-up contribution. The same limits apply to traditional IRAs, and your Roth IRA limit is reduced by any traditional IRA contributions you make for the year.

But your ability to make Roth IRA contributions is phased out if your modified adjusted gross income (MAGI) exceeds certain levels. For 2026, the phaseout ranges are:

- \$153,000 to \$168,000 for single individuals and heads of households, and
- \$242,000 to \$252,000 for married couples filing jointly.

If your MAGI falls within the range, your contribution limit is reduced. If it equals or exceeds the top of the range, your ability to contribute is eliminated.

Married individuals who file separately and live apart for the full year are treated as single individuals for the income limitations. However, separate filers who live together at any time during the year are subject to a phaseout range of \$0 to \$10,000.

Is your income too high to qualify?

At first glance, these figures may cause you to assume you're ineligible for Roth contributions. But take another look.

When calculating MAGI for Roth IRA eligibility purposes, self-employed individuals may be able to significantly reduce their taxable income through deductions for:

- Certain business expenses, such as rent, home office expenses and computer costs,
- Contributions to a tax-deferred retirement plan, such as a solo 401(k), SEP IRA or SIMPLE,
- Health insurance premiums, and
- Self-employment tax.

These deductions, along with others, are subtracted when calculating MAGI. Therefore, a self-employed person can have relatively high gross income from his or her business while having a much lower MAGI.

The choice between contributing to a Roth IRA or a tax-deferred account isn't an all-or-nothing proposition. Depending on your situation, you may decide to contribute to both types of accounts, subject to applicable limits. Contributing to a tax-deferred retirement plan provides immediate tax savings. And, because these contributions lower your MAGI, they may put your taxable income below the phaseout limits for Roth IRA contributions.

Additional benefits

The main upside of contributing to a Roth IRA is that qualified withdrawals won't be taxed. This can be advantageous if you expect to be in a higher tax bracket in retirement or if tax rates increase. Moreover, withdrawals from Roth accounts aren't counted when calculating the taxable portion of your Social Security benefits.

Another Roth IRA advantage is that you don't have to take withdrawals at any age, meaning the account can continue to grow tax-free. With a traditional IRA (and other

tax-deferred retirement accounts), at age 73, you generally must begin to take required minimum distributions or face a penalty equal to 25% of the amount you should have withdrawn but didn't. In addition, if your Roth IRA is passed on to your heirs, it can continue to grow tax-free, and their withdrawals generally will be tax-free. However, most nonspouse beneficiaries will be required to deplete the account within 10 years of inheriting it.

Bottom line

A Roth IRA offers many potential benefits, and self-employed individuals may be more likely to qualify to make Roth IRA contributions than other taxpayers with similar gross incomes. But they aren't right for every situation. We can help evaluate your eligibility and develop a long-term retirement strategy that aligns with your personal and financial goals. Contact us to learn more.

© 2026