

# Backdoor Roth

A backdoor Roth IRA is a strategy rather than an official type of individual retirement account. It is a technique used by high-income earners—who **exceed** Roth IRA income limits—to contribute to a Traditional IRA then convert the Traditional IRA to a Roth IRA.

## Pro-rata rule

If you contribute \$7,000 to a Traditional IRA today and then later roll it over to a Roth IRA, and you have **other Traditional IRAs** that include **tax-deferred income** (pre-tax contributions), you will need to account for that in the Roth conversion process.

When you convert from a Traditional IRA to a Roth IRA, the IRS requires you to use the **pro-rata rule** to determine how much of your conversion will be taxable. This rule applies if you have both **pre-tax contributions** (tax-deferred) and **after-tax contributions** (nondeductible) in any of your Traditional IRAs. Please refer to [Retirement plans \(401K's, IRA's\)](#) for more information.

| Category                                     | Backdoor Roth IRA Rollover   |
|--|--|
| <b>Purpose</b>                               | To contribute to a Roth IRA indirectly by converting funds from a Traditional IRA.   |
| <b>Eligibility</b>                           | Anyone can use the Backdoor Roth strategy, even if they exceed the income limits for Roth IRA contributions.   |
| <b>Steps Involved</b>                        | <ol style="list-style-type: none"><li>1. <b>Contribute</b> to a Traditional IRA (up to the contribution limit, typically \$7,000 for under 50, \$8,000 for 50+).</li><li>2. <b>Convert</b> the Traditional IRA to a Roth IRA, usually soon after contributing, to avoid any significant taxable growth.</li></ol>  |
| <b>Contribution Limits (2024)</b>            | <b>Under Age 50:</b> \$7,000 per year <b>Age 50 or Older:</b> \$8,000 per year (catch-up contribution allowed).  |
| <b>Income Limits for Roth IRA</b>            | There are no income limits for the Backdoor Roth IRA strategy, as it bypasses income restrictions by converting funds from a Traditional IRA.  |
| <b>Traditional IRA Contributions</b>         | Contributions are subject to <b>Traditional IRA contribution limits</b> and can be either deductible or non-deductible, depending on your income and whether you are covered by a workplace retirement plan.   |
| <b>Step Transaction Doctrine</b>             | The IRS could challenge the Backdoor Roth strategy if it sees the steps as a " <b>step transaction</b> ", meaning they are too closely related to circumvent the rules. While no direct prohibitions exist, it's important to follow IRS guidelines and perform the transactions correctly (e.g., waiting sometime between Traditional IRA contribution and conversion). |
| <b>Tax Filing</b>                            | You must report the conversion on your tax return using <b>Form 8606</b> to declare non-deductible Traditional IRA contributions and the amount converted to a Roth IRA.   |
| <b>Required Minimum Distributions (RMDs)</b> | Traditional IRA funds are subject to <b>RMDs</b> starting at age 73, while Roth IRAs are not subject to RMDs during the account holder's lifetime.   |
| <b>IRA Basis Tracking</b>                    | You must track the <b>basis</b> (after-tax contributions) in your Traditional IRA and report it on <b>Form 8606</b> . This ensures that you are not taxed again on the after-tax contributions when converting them to a Roth IRA.   |
| <b>Early Withdrawal Penalty</b>              | Funds converted to a Roth IRA are not subject to an early withdrawal penalty if withdrawn after the Roth IRA is open for 5 years and the account holder is 59½ or older. If the funds are withdrawn before 5 years or before age 59½, they may be subject to taxes and penalties.  |

## Make a Roth contribution for a Child or Grandchild

Consider an underutilized tax strategy for children, contributing to a Roth IRA for high income individuals.

Your child/grandchild must have earned income to be eligible to open a Roth IRA, so you can encourage them to take on a part-time or summer job. A job will give them some extra spending money or savings for college. You will then open a Roth IRA custodial account in their name. Control of the Roth IRA is transferred to them once they become an adult. The clock for 5 years of Roth opened starts with your contribution. Your contributions toward their Roth IRA are considered a gift and would count against your limit on tax-free gifts.

### Retirement Contributions for 2024 & 2025:

| Contribution Limits and Income Limits for 401(k), IRA, and Roth IRA (2024 and 2025) |   |   |
|---|---|---|
| Year  | 2024  | 2025  |
| 401(k) Contribution Limit   | \$23,000 (under 50)                         | \$23,500 (under 50)                         |
|   | \$30,500 (50+)                              | \$31,000 (50+)                              |
| Income Limits for 401(k)  | No income limits for contributions          | No income limits for contributions          |
| IRA Contribution Limit  | \$7,000 (under 50)                          | \$7,000 (under 50)                          |
|   | \$8,000 (50+)                               | \$8,000 (50+)                               |
| Income Limits for IRA   | No income limits for contributions          | No income limits for contributions          |
| Roth IRA Contribution Limit   | \$7,000 (under 50)                          | \$7,000 (under 50)                          |
|   | \$8,000 (50+)                               | \$8,000 (50+)                               |
| Income Limits for Roth IRA  | Single: \$146,000 - \$161,000               | Single: \$150,000 - \$165,000               |
|   | Married Filing Joint: \$230,000 - \$240,000 | Married Filing Joint: \$236,000 - \$246,000 |

married filing separate limited to than/equal to \$10,000

### New Super Catch-Up Contributions for Ages 60 to 63

New for 2025: 401(k) contribution limits for people ages 60 to 63 are super-sized. If you are 60, 61, 62 or 63 in 2025, you can contribute an additional \$11,250 to an employer-based 401(k), 403(b), 457 or (most) governmental thrift programs for a total contribution of \$34,750.

A **Roth IRA conversion** (sometimes called a **backdoor Roth IRA** when done indirectly) allows you to move funds from a **Traditional IRA** (or another pre-tax retirement account) into a **Roth IRA**, paying income taxes on the converted amount in the year of conversion.