

Steps to a Backdoor Roth IRA

By Julie Lobaza

The Backdoor Roth IRA strategy continues to be a valuable financial tool for high-income earners seeking tax-advantaged retirement savings. As of 2024, the process involves making nondeductible contributions to a traditional IRA and subsequently converting those funds into a Roth IRA. We will outline the steps necessary to execute a Backdoor Roth IRA in 2024.

Before diving into the Backdoor Roth IRA strategy, confirm the current annual contribution limits. In 2024, individuals under 50 can contribute up to \$7,000, while those aged 50 and older can contribute up to \$8,000.

Confirm your eligibility for a Roth IRA by checking your modified adjusted gross income (MAGI). In 2024, individuals with a MAGI below \$146,000 (single filers) or \$230,000 (married filing jointly) can make the full direct Roth IRA contributions. However, if you are above this amount you can still contribute to a Roth IRA by using the Backdoor Roth IRA method.

In order to perform a Backdoor Roth, you need to open a traditional IRA if you don't already have one. Make sure you choose a reputable financial institution. Consider factors like fees, investment options, and customer service. It is important to make sure you do not have money in a current traditional IRA to prevent mixing pretax (deductible) contributions with after-tax (nondeductible) contributions.

Contribute appropriate amount of funds to your traditional IRA, ensuring they are nondeductible. Keep in mind that these contributions are post-tax, meaning you've already paid taxes on them.

Contact your IRA custodian or financial professional and request the conversion of your traditional IRA funds to a Roth IRA. Complete the necessary paperwork, and the conversion process can often be done online or through your financial institution.

If there were gains on your nondeductible contributions during the clearing period, consult a tax professional to ensure accurate reporting and payment of any taxes owed. Understanding and addressing tax implications is crucial for a successful Backdoor Roth IRA strategy.

Executing a Backdoor Roth IRA in 2024 remains a viable option for individuals looking to maximize retirement savings. Remember if your income exceeds the Roth IRA contribution limits each year, you can repeat this process annually. Stay informed about any changes in tax laws and consider seeking advice from financial professionals to navigate the process effectively. The Backdoor Roth IRA strategy can offer valuable tax benefits, but careful planning and adherence to regulations are key to its success.

