

PBS Ep160 AskPB Roth IRAs

Patti: Hi, everybody. Welcome to the Patti Brennan Show. Whether you have \$20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today, we're going to be talking about this thing called a backdoor Roth. For those of you who think that it sounds kind of iffy, I will tell all of you that it's not iffy. It used to be gray and now it's black and white.

It's so black and white that anybody can do this if you meet certain criteria. President Biden proposed legislation that would take it away from all of us. I would like you to listen up, because it can be powerful in the right situation. First, let's define it.

What is a backdoor Roth? Under current law, you can put in \$7,000 per person. If you're over the age of 50, in 2024, you can put \$8,000 into an IRA.

You would tell your CPA that you put this money into an IRA, and he would file a form called 8606 to acknowledge the fact that you're not taking a current tax deduction for that. That's really important.

You would leave it there for a period of time and then later you convert it into a Roth IRA. There's no income limitation as to who can do a Roth conversion. You could make a million dollars a year and you could do a Roth conversion without a problem.

My suggestion would be, don't invest it. Stick it in a non-interest-bearing account depending on how long it's going to stay there. You will pay taxes on the gain from when you deposited into the IRA and the date that you converted it into a Roth. If it's not invested and if it hasn't grown that much, there is no tax.

Now, there are three important things to keep in mind. Number one, if you are single and you make under \$161,000, you don't need to go through this process of setting up an IRA, doing the form, and converting it, because you would already qualify for a Roth. Just put the money directly into a Roth IRA.

If you are married, filing jointly, you could do the same thing if your joint income is below \$240,000. Very important, though, you must have income to do a backdoor Roth. If you are retired and don't have wages of any kind, I'm sorry to tell you this, but if you're not able to do a backdoor or any Roth contribution.

That's number one, keep in mind that this may be overkill depending on what your income is. Number two, you must have income to make any kind of an IRA contribution.

Number three, be very careful of something called the Pro-Rata rule. If you have IRAs, a simple plan or a SEP-IRA, the Pro-Rata rule comes into play so that when you do the conversion, you must aggregate all your IRA accounts and more of that \$7,000 is going to be included in your income that year.

If that is the case, assuming that you are working, and have access to a 401(k), you might want to check with your 401(k) provider. Just as people do a roll over, a roll out of their 401(k)s, you may be able to do a roll in. Take that IRA, roll it into your 401(k), and voilà, no Pro-Rata rule.

These are three important things to consider if you're thinking about doing this backdoor Roth. It is powerful over time because tax deferred is great but tax free is even better. That's what you get with a Roth IRA. I'm going to give you all one more teaser. That teaser is, we are in 2024.

The big question that we're all being asked right now is, "Patti, the tax law is going to sunset. What should I be thinking about? What should I be doing in 2024 because tax rates are going to go up, estates are going to get clobbered, etc.?" Here is what I would say to all of you listening today. Don't do anything right now.

We have an election this year. We don't know who's going to be president. We don't know what the composition of Congress and the Senate is going to be. Yes, barring no action, the law will sunset to what the law was in 2017 before the changes were made. There's a lot of time to do something about it. Don't do anything until we have more information.

I'm Patti Brennan. We are Key Financial, Wealth Management with Wisdom and Care. Thank you so much for joining me today. If you have any questions about backdoor Roths, this new tax law that may or may not occur, or anything else that you might have questions about, feel free to go to our website at www.keyfinancialinc.com. I hope you all have a terrific day. Take care.