





MASTERING THE BACKDOOR ROTH STEP BY STEP: A HIGH-EARNER'S GUIDE TO SMART RETIREMENT PLANNING

yourtailoredwealth.com



The Backdoor Roth IRA is a savvy strategy used by high-flying tech professionals to maximize their retirement savings, regardless of their income levels.

This guide offers a streamlined checklist and a step-by-step approach to help you navigate the intricacies of Backdoor Roth IRAs, leading you to tax-free retirement growth.

"Roth IRAs are a very powerful means to grow your retirement nest egg tax-free, but contributing to them as a high earner can be tricky. I wrote this to demystify the Backdoor Roth IRA strategy and to empower you to plan with confidence. Enjoy!" -Dan from Tailored Cents

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Is a Backdoor Roth IRA Suitable for You?

Before getting started, let's think it through- do you really need the complicated Backdoor Roth dance?

While it's an instrumental technique for high earners, there are plenty of instances in which it's not a fit.

Each financial situation is unique; three of the most common reasons a Backdoor Roth might not be a fit include:

- 1. You're below the Roth income contribution limits. If your MAGI is less than \$138,000 (filing individually), don't sweat the technique- you can contribute directly.
- 2. You're unshakeably confident your tax rates in the future will be significantly lower than your tax rates today. Roths tend to shine in higher-tax situations.
- 3. You have illiquid financial circumstances where you can't pay the taxes due upon converting from Traditional to Roth.

Amount of Roth IRA Contributions That You Can Make For 2023

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified AGI as computed for Roth	
IRA purpose.	

Types of Retirement Plans	If your filing status is	And your modified AGI is	Then you can contribute
Required Minimum Distributions	married filing jointly or qualifying widow(er)	< \$218,000	up to the <u>limit</u>
Published Guidance	married filing jointly or qualifying widow(er)	≥ \$218,000 but < \$228,000	a reduced amount
Forms & Publications	married filing jointly or qualifying widow(er)	≥ \$228,000	zero
Operate a Retirement Plan	married filing separately and you lived with your spouse at any time during the year	< \$10,000	a reduced amount
News Topic Index	married filing separately and you lived with your spouse at any time during the year	≥\$10,000	zero
	single, head of household, or married filing separately and you did not live with your spouse at any time during the year	< \$138,000	up to the <u>limit</u>
	single, head of household, or married filing separately and you did not live with your spouse at any time during the year	≥\$138,000 but < \$153,000	a reduced amount
	<pre>single, head of household, or married filing separately and you did not live with your spouse at any time during the year</pre>	≥\$153,000	zero

Amount of Roth IRA Contributions That You Can Make For 2023 | Internal Revenue Service

IRAs

If you've thought through the following and it's a go- great!

Here are a few more specific nuances to chew through.

Do you have existing IRA balances that could complicate the conversion, including in SIMPLE and SEP accounts?

Will the timing of any rollovers and previous IRA contributions also complicate your current year's tax filing situation?

S If you're clear on the prerequisites, a Backdoor Roth IRA could be a good strategic move to sweeten your retirement savings.

This method ensures you pay only what you owe in taxes, not a cent more, thereby potentially building a substantial tax-free nest egg for your future.



Step #1 Contribute to a Traditional IRA

Kick everything off by contributing to a Traditional IRA.

Although we're primarily focusing on the Backdoor Roth steps, it's helpful to note that your contribution may be tax deductible.

Tax deductibility varies based on income, filing status, and workplace retirement plans.

2023 IRA Deduction Limits - Effect of Modified AGI on Deduction if You Are NOT Covered by a Retirement Plan at Work

Types of Retirement Plans		And Your Modified AGI				
Required Minimum Distributions	If Your Filing Status Is	ls	Then You Can Take			
Published Guidance	single, head of household, or qualifying widow(er)	any amount	a full deduction up to the amount of your <u>contribution limit</u> .			
Forms & Publications	married filing jointly or separately with a spouse	any amount	a full deduction up to the amount of			
Operate a Retirement Plan	who is not covered by a plan at work		your contribution limit.			
News	married filing jointly with a spouse who is covered by a plan at work	\$218,000 or less	a full deduction up to the amount of your <u>contribution limit</u> .			
Topic Index	married filing jointly with a spouse who is covered by a plan at work	more than \$218,000 but less than \$228,000	a partial deduction.			
	married filing jointly with a spouse who is covered by a plan at work	\$228,000 or more	no deduction.			
	married filing separately with a spouse who is covered by a plan at work	less than \$10,000	a partial deduction.			
	married filing separately with a spouse who is covered by a plan at work	\$10,000 or more	no deduction.			
	If you file separately and did not live with your spouse a "Single" filing status.	t any time during the year, you	r IRA deduction is determined under			

2023 IRA Deduction Limits - Effect of Modified AGI on Deduction if You Are NOT Covered by a Retirement Plan at Work | Internal Revenue Service

2023 IRA Deduction Limits - Effect of Modified AGI on Deduction if You Are Covered by a Retirement Plan at Work

	modified AGI affects the a	amount of your deduction	n. See IRAs for more information.	Topics for Retirement Plans			
Types of Retirement Plans	If Your Filing Status	And Your Modified		 Individual Retirement Arrangeme (IRAs) 			
Required Minimum Distributions	ls	AGI Is	Then You Can Take	<u>Types of Retirement Plans</u>			
Published Guidance	single or head of household	\$73,000 or less	a full deduction up to the amount of your <u>contribution</u>	 <u>Retirement Topics — Required</u> <u>Minimum Distributions (RMDs)</u> 			
orms & Publications			limit.	 Published Guidance 			
perate a Retirement Plan	single or head of household	more than \$73,000 but less than \$83,000	a partial deduction.	<u>Retirement Plan Forms and</u> <u>Publications</u>			
ews	single or head of household	\$83,000 or more	no deduction.	<u>Correcting Plan Errors</u> <u>Retirement Topics</u>			
pic Index	married filing jointly or qualifying widow(er)	\$116,000 or less	a full deduction up to the amount of your <u>contribution</u> <u>limit</u> .	<u>Tax exempt & government entities</u> <u>division at-a-glance</u> <u>Retirement Plans</u>			
	married filing jointly or qualifying widow(er)	more than \$116,000 but less than \$136,000	a partial deduction.				
	married filing jointly or qualifying widow(er)	\$136,000 or more	no deduction.				
	married filing separately	less than \$10,000	a partial deduction.				
	married filing separately	\$10,000 or more	no deduction.				

2023 IRA Deduction Limits - Effect of Modified AGI on Deduction if You Are Covered by a Retirement Plan at Work | Internal Revenue Service You may even be able to get the Saver's Credit- a direct 1:1 reduction in your income

2023 Saver's Credit

Credit Rate	Married Filing	Head of	All Other
	Jointly	Household	Filers*
50% of your contribution	AGI not more	AGI not more	AGI not more
	than \$43,500	than \$32,625	than \$21,750
20% of your contribution	\$43,501- \$47,500	\$32,626 - \$35,625	\$21,751 - \$23,750
10% of your contribution	\$47,501 - \$73,000	\$35,626 - \$54,750	\$23,751 - \$36,500
0% of your	more than	more than \$54,750	more than
contribution	\$73,000		\$36,500

Retirement Savings Contributions Savers Credit | Internal Revenue Service

Even if you don't get any credits or deductions at all, that's OK.

The critical focus here is laying the groundwork for the pivotal next step in your financial maneuver.

Q Ensure Proper Execution of Your Traditional IRA Contribution

First and foremost, confirm whether you made a Traditional IRA contribution this year or in the previous one.

Are you eligible for a catch-up contribution due to your age?

Understanding the source of the funds is also crucial – where is the money coming from to fund your IRA?

Your tax preparer and financial planner must kept in the loop. Specifically, that your contribution should be reported as non-deductible to avoid tax complications.

Checking Your Tax Forms: For a flawless Backdoor Roth process, ensure the funds went into the correct account and no deduction was claimed for these contributions on your tax return. If a deduction was incorrectly taken, it would typically appear on line 10 of your Form 1040 and Schedule 1.



This step is the "backdoor" part of the sequence and is often as simple as ticking a box.

Remember, while direct Roth contributions face income limits, conversions don't. However, don't confuse income limits with contribution limits—everyone is limited to the initial contribution cap set by the IRS—\$6,500 for 2023 if you're under 50.

This step can be as simple as just clicking a few buttons on something like Vanguard (or wherever your Traditional IRA contributions are, and going through the sequence.

• Tr	aditional IRA B	rokerage Account —		-	
More account information	Registration details 🛛	Definitions	Convert to Roth IRA	Transfer money	Transact :

However, the proof is in the pudding—the two-step tango of the Backdoor Roth seems easy, but as we'll learn, it requires extensive proof that you did it correctly.



This proof must stand the test of time- your paperwork trail may need to flawlessly document your contributions over multiple decades.

Ensuring Accurate Reporting of Your IRA Conversion

Understand the reporting process.

When you convert funds from a traditional IRA to a Roth IRA, custodians usually handle the distribution and conversion using a single form.

However, for IRS purposes, this is treated as two distinct events: a distribution from the Traditional IRA and a contribution/conversion to the Roth IRA.

🖹 Form 1099-R

The 1099-R form you'll receive for the distribution may label the entire amount as "taxable distribution" and indicate "taxable amount not determined." This wording can be confusing, but it's standard procedure.

PAYER'S name, street address country, ZIP or foreign postal of				CORRE rovince,	_	Gross distribution		0	MB No. 1545-0	110	Distributions From ensions, Annuities
					\$ 2	a Taxable amount	t		20 2 4		Retirement o ofit-Sharing Plans IRAs, Insurance Contracts, etc
					\$				Form 1099-	R	
					2	b Taxable amount not determined	^t 🔲		Total distribution		Copy I Report thi
PAYER'S TIN		RECIPIENT'S TIN	1		3	Capital gain (inclu box 2a)	uded in		Federal inco withheld	me tax	income on you federal ta return. If thi
					\$			\$			form show
RECIPIENT'S name					5	Employee contrib Designated Roth contributions or insurance premiu			Net unrealize appreciation employer's s	in	federal incom tax withheld i box 4, attac this copy t
					\$		104/	\$			your retur
Street address (including apt.	10.)				7	Distribution code(s)	IRA/ SEP/ SIMPLE	8	Other		
					L			\$		%	This information being furnished
City or town, state or province, o	oun	try, and ZIP or for	eign	postal code	9	a Your percentage distribution	of total %		 Total employe 	e contributions	the IR:
10 Amount allocable to IRR within 5 years	11	1st year of desig. Roth contrib.	12	FATCA filing requirement	1	4 State tax withhe	d	15	5 State/Payer	r's state no.	16 State distributio \$
\$					\$			1			\$
Account number (see instruction	ons)		13	Date of payment	1	7 Local tax withhe	əld	18	Name of lo	cality	19 Local distributio
					¢						¢

Despite the potential ambiguity in the 1099-R, ensuring that this is accurately reflected on your Form 1040 is crucial.



Do not panic. There's no need to stress or reach out to the custodian for clarification or amendments to the 1099-R. The key is in the details of your tax filing.

🗎 Form 1040

The "taxable amount not determined" notation signals to the IRS—and your tax professional—that the actual taxable amount will be clarified on your tax return.

You're in the clear as long as your Form 1040 accurately reflects the conversion and its tax implications.

Facility		5. Individual Income Tax	k Re		-0	OMB No. 1545-	-0074			rite or staple in this space.		
		31, 2023, or other tax year beginning		, 2023, e	nding			, 20		parate instructions.		
Your first name	and mi	ddle initial	Last r	ast name						Your social security number		
If joint return, sp	ouse's	first name and middle initial	Last r	name	_		_		Spouse	's social security numbe		
Home address (numbe	r and street). If you have a P.O. box, see	instruc	ctions.			A	pt. no.	Presidential Election Campaig			
		e. If you have a foreign address, also co			Sta		ZIP co			here if you, or your if filing jointly, want \$3		
City, town, or p	ode	to go to this fund. Checking a box below will not change										
Foreign country	name			Foreign province/stat	e/count	ty	Foreig	n postal code		c or refund.		
Filing Status		Single				Head of ho	ouseh	old (HOH)				
	Ē	Married filing jointly (even if only o	ne had	d income)			babon	010 (11011)				
Check only one box.		Married filing separately (MFS)		,		Qualifying	surviv	ing spouse	(QSS)			
	lf v	ou checked the MFS box, enter the	name	of your spouse. If y	ou che					ild's name if the		
		alifying person is a child but not you		andant								
Digital		y time during 2023, did you: (a) rec					-			Yes No		
Assets		ange, or otherwise dispose of a dig				-	n) r (Se	e instructio	13.)			
Standard Deduction	-	eone can claim: You as a de pouse itemizes on a separate retur										
			,	_		_				_		
	-	Were born before January 2, 1	959	—	pouse		1.0	ore January 2		Is blind		
Dependents			(2) Social security (3) Relationship				ip (4	(4) Check the box if Child tax credit		fies for (see instructions Credit for other dependen		
If more	(1) Fi	rst name Last name		number		to you	-	Child tax ci	edit	Credit for other dependen		
than four dependents,							-+-					
see instructions							-+-					
and check here							-+-					
	1a	Total amount from Form(s) W-2, b	ox 1 (s	see instructions)			_		. 1a			
Income	ь	Household employee wages not re		,					11			
Attach Form(s) W-2 here. Also	c	Tip income not reported on line 1a	-						10			
attach Forms	d	Medicaid waiver payments not rep			instru	ictions)			10			
W-2G and 1099-R if tax	е	Taxable dependent care benefits f		., .					. 10	,		
was withheld.	t	Employer-provided adoption bene			9.				. 11	-		
If you did not	9	Wages from Form 8919, line 6 .							. 10			
get a Form W-2, see	h	Other earned income (see instruct	ions)						. 11			
instructions.	1	Nontaxable combat pay election (see ins	structions)		11						
	z	Add lines 1a through 1h							. 12			
Attach Sch. B	2a	Tax-exempt interest	2a		bТ	axable interest	t .		. 2t			
if required.	3a	Qualified dividends	3a		b O	ordinary divider	nds.		. 3t			
tandard	4a		4a			axable amount			. 4t			
tandard eduction for-	5a		5a		b Ta	axable amount	t		. 5t			
Single or Married filing	6a	· · · · · · · · · · · · · · · · · · ·	6a			axable amount	t		. 6t			
separately,	с	If you elect to use the lump-sum e					• •					
\$13,850 Married filing	7	Capital gain or (loss). Attach Sche			quired,	, check here	• •	· · · L	7			
jointly or Qualifying	8	Additional income from Schedule			• •		• •		. 8	-		
surviving spouse,	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7			ncome	D	• •		. 9			
\$27,700 Head of	10	Adjustments to income from Sche			• •		• •		. 10			
household,	11	Subtract line 10 from line 9. This is					• •		. 11			
\$20,800		Standard deduction or itemized	deduc	ctions (from Schedu	ie A)				. 12			
\$20,800 If you checked	12											
If you checked any box under Standard	13	Qualified business income deduct		m Form 8995 or For	m 899	5-A			. 13			
If you checked any box under			ion fro					· · · · · ·	. <u>13</u> . <u>14</u> . <u>15</u>	•		

By paying close attention to how these transactions are reported and working closely with your tax advisor, you can navigate this complex reporting process and ensure that your Backdoor Roth IRA conversion is documented correctly, avoiding unnecessary hiccups with the IRS.

Securing Your Roth Conversion's Tax-Free Status

Next up, let's make sure your Roth contribution are forever tax-free, as you've already paid tax on them.

W Document the Conversion:

When you convert assets from a Traditional IRA to a Roth IRA, it's crucial to document this move accurately on IRS Form 1040 and Form 8606. This documentation isn't just bureaucratic red tape—it's what solidifies your conversion's tax-free benefits.

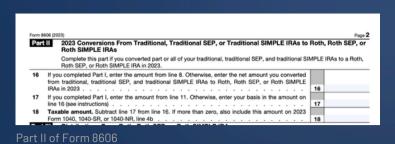
The conversion is officially recognized for tax purposes only once correctly reported, and the funds have landed in your Roth account.

Make sure you fill out Form 8606 correctly:**

Contributions are noted in Part 1 of Form 8606, but the conversion process—often overlooked—should be detailed in Part 2.

orm (B606	Nondedu	ctible IRAs		OMB No. 1545-0074
ecarte	ant of the Treasury		040, 1040-SR, or 1040-NR.		2023
	Revenue Service		nstructions and the latest information.		Sequence No. 48
ame. I	f married, file a sepa	rate form for each spouse required to file 2023 Form 860	06. See instructions.	Your so	cial security number
-		Home address (number and street, or P.O. box if mail is	s not delivered to your home)		Apt. no.
	Your Address f You Are				
		City, town or post office, state, and ZIP code. If you have	ve a foreign address, also complete the spaces bei	ow (see ins	tructions).
		Province and the second	Production for the television	E	
		Foreign country name	Foreign province/state/county	Foreign	postal code
		uctible Contributions to Traditional If ditional SIMPLE IRAs	As and Distributions From Tradit	ional, 1	raditional SEP,
	Complete	this part only if one or more of the following	g apply.		
		de nondeductible contributions to a tradition			
	contribe (other ti	A distributions from a traditional, traditional utions to a traditional IRA in 2023 or an earlie han certain qualified disaster distribution rep distribution to fund an HSA, conversion, re	er year. For this purpose, a distribution o asyments from 2023 Form(s) 8915-F), qu	loes not alified c	include a rollover haritable distributi
		nverted part, but not all, of your traditional, t			
		MPLE IRAs in 2023 and you made nondedu			
1		ndeductible contributions to traditional IRA			
		1, 2024, through April 15, 2024. See instructi			1
2		I basis in traditional IRAs. See instructions			2
3	Add lines 1 an			- H	3
	traditional, tr SIMPLE IRA:	rou take a distribution from aditional SEP, or traditional s, or make a Roth, Roth SEP, 2LE IRA conversion? Yes -	 Enter the amount from line 3 on line Do not complete the rest of Part I. Go to line 4. 	9 14.	
4		ntributions included on line 1 that were made	from January 1 2024 through April 15	0.24	4
5		from line 3			5
6		of all your traditional, traditional SEP, and			
		outstanding rollovers. Subtract certain report 8 Form(s) 8915-F (see instructions)			6
7		tributions from traditional, traditional SEP, a			0
·	include rollove 8915-F (see in conversions t	rs (other than repayments of qualified disa istructions); qualified charitable distribution o a Roth, Roth SEP, or Roth SIMPLE tions of traditional IRA contributions (see ins	ster distributions, if any, from 2023 For ns; a one-time distribution to fund an F E IRA; certain returned contributions	m(s) ISA; ; or	7
8	Enter the net a	amount you converted from traditional, trad P, or Roth SIMPLE IRAs in 2023. Also, enter	itional SEP, and traditional SIMPLE IRA	s to	8
9		and 8		· • •	
10	Divide line 5 I	by line 9. Enter the result as a decimal ro esult is 1.000 or more, enter "1.000"	ounded to at least 3		
11	Multiply line 8 converted to F	by line 10. This is the nontaxable portion Roth, Roth SEP, or Roth SIMPLE IRAs. Also	o, enter this amount		
12		by line 10. This is the nontaxable portion			
		ot convert to a Roth, Roth SEP, or Roth SIM			
13		nd 12. This is the nontaxable portion of all y			13
14		3 from line 3. This is your total basis in trac			14
15a		2 from line 7			5a
ь	8915-F (see in	structions). Also, enter this amount on 2023	Form(s) 8915-F, line 18, as applicable	(see	5b
c	Taxable amou	Int. Subtract line 15b from line 15a. If more 40-SR, or 1040-NR, line 4b	than zero, also include this amount on 2	023	50
	Note: You may	y be subject to an additional 10% tax on th e of the distribution. See instructions.			
_		perwork Reduction Act Notice, see separate in	structions. Cat. No. 63966F		Form 8606 (2

Part I of Form 8606



Even though skipping this part might not impact your immediate tax liabilities, it creates a vital record, which is particularly important if you need to demonstrate that you've adhered to the Roth conversion rules, such as the five-year rule for withdrawing conversion principal without penalty before age 59 ½.

Make sure you're reporting everything completely.

Make sure your tax preparer doesn't miss Part 2 of Form 8606.

It's easy to miss, given the comprehensive nature of an involved tax filing, but don't forget about it! This section is essential for maintaining a clear trail of your Roth conversions and contributions.



Should you ever need to access your Roth funds early, this thorough documentation will be invaluable in proving that you've met all the necessary tax requirements and conditions.

By meticulously documenting your Roth conversion on the appropriate tax forms, you lay the groundwork for reaping the Roth IRA's full tax-free benefits, safeguarding your financial strategy against future complications or inquiries.

Backdoor Roth Considerations

When done correctly, the Backdoor Roth IRA journey leads to significant tax advantages and tax-free retirement savings growth.



Considering a Backdoor Roth IRA? Start with a complimentary Financial Analysis. Click here: <u>Free Financial Analysis - Online scheduling</u> to see if the Backdoor Roth strategy works for your specific financial situation.

However, it's a path lined with critical considerations to ensure your financial maneuver is seamless and compliant.

🖥 🥗 The Cream & The Coffee Considerations

Think of your IRA contributions as a cup of coffee.

When you add non-deductible contributions (the cream) to your existing IRA funds (the coffee), they blend together.

From then on, each withdrawal or conversion from your IRA is a mix of both taxable and non-taxable amounts—just like every sip of your coffee now has a bit of cream.

Unlike cream in a coffee cup, which might separate over time, the "cream" in your IRA stays mixed with your "coffee" permanently.

This means you need to calculate the taxable (cream) and non-taxable (coffee) portions for every withdrawal or conversion. It's crucial to maintain accurate records, as this blend will dictate the tax implications of your withdrawals or conversions, ensuring you don't pay taxes twice on the same money.

Know Your Tax Liability

If you contribute pre-tax dollars to a Traditional IRA and then convert it to a Roth, you pay tax upon the conversion.

Yes, you will have to pay taxes on the conversion at current ordinary income rates—but that's just how Roth IRAs work.

If you contribute post-tax dollars into a Traditional IRA and then convert it into a Roth, you do not pay tax upon the conversion, and you don't need to worry about the pro-rata rule below unless you had a prior Traditional IRA balance.

Suppose you have both pre-tax and after-tax funds in the same Traditional IRA and wish to convert to a Roth IRA. The IRS doesn't allow you to convert only the after-tax funds- no cherry-picking!

determining the taxable amount involves calculating the ratio of your after-tax contributions to the total IRA balance (including all your IRAs, not just the one being converted).

Tax Return Review: Form 8606

Before embarking on a Backdoor Roth strategy, it's crucial to meticulously review past tax returns for Form 8606. This form reveals whether there is already "cream" (after-tax contributions) in your IRA "coffee."

The absence of Form 8606 doesn't always mean there are no after-tax contributions, as filing inaccuracies can occur.

🔍 💀 Backdoors and the Legend of the Lost Basis

Avoid Backdoor IRAs turning into a mystery novel by being extremely diligent in your record keeping.

Uncovering Hidden Tax-Free Basis: Sometimes, taxpayers find themselves with a tax-free basis in their IRAs due to partial eligibility for deductible contributions.

This occurs when their income falls within the phase-out range, leading to partially deductible and partially non-deductible contributions.

Rather than correcting the excess, some opt to leave the excess as a non-deductible contribution, necessitating continuous Form 8606 filings to track and report the tax-free portion of distributions accurately.



A significant pitfall is the "lost basis" scenario, where the basis remains unreported, and taxpayers end up paying tax twice on the same income—once at contribution and again at distribution.

This happens when distributions are reported as taxable without acknowledging the nondeductible contributions to the IRS.

To avoid this, cozy up with Form 8606-listed above and linked below in Resources.

Technically, you only need to file Form 8606 when there's relevant activity, like distributions or conversions. Therefore, if there's a basis in the IRA but no recent activity, it could be years since the last Form 8606 was filed.

As such, they're easily overlooked- advisors might review recent tax returns, not find Form 8606, and mistakenly conclude there's no basis to report.

🗣 🥗 🖺 Oral History, Meet Documentation

To avoid overlooking lost basis, ensure your advisors are combining your recollections of your IRA contributions with a review of your Social Security earnings statements.

This helps pinpoint years where the taxpayer's income might have exceeded the deduction limits, suggesting possible non-deductible contributions.



I can't stress this enough- this is very common with high-earners, especially as their career growth trajectory outpaces their tax planning focus.

While not foolproof, simply just checking in with your financial planner and reviewing your available tax documents in light of a potential Backdoor Roth is a pragmatic strategy to uncover and rectify lost basis issues.

Final Review: Make Sure Your Tax Return Reflects Your Financial Strategy

Proactive coordination and effective communication are by far the most important ingredient in a flawless Backdoor Roth strategy.

A week before the personal tax deadline isn't the best time to email your financial planner and CPA asking to "do the roth backdoor thing."

There are many moving pieces that require multiple points of review, and it all starts with coordinating with your financial planner and tax preparer.

Send reminders in Q4, latest January, about the upcoming tax filing and review the accuracy of the filed return, particularly Form 8606, which details your IRA contributions and conversions.

Conduct a year-end review in mid-to-late Q4 to ensure everyone is on the same page.

Create an annual tax summary. One valuable tool in this process is an annual letter from your advisor that summarizes the tax implications of your financial activities throughout the year. This letter can serve as a comprehensive guide for both you and your tax professional, ensuring that all relevant financial moves are accurately reflected in your tax return.

Finalize your strategy. Remember, a tax planning strategy isn't truly complete until it's been accurately reported to the IRS. This final step of verification ensures that your financial maneuvers, like the Backdoor Roth IRA, are fully recognized and validated for tax purposes, solidifying the benefits of your strategic financial decisions.

If you're curious about how a Backdoor Roth strategy would work in your unique situation, I strongly recommend consulting a financial planner who has experience in working with high-earners and who has annual (multiple cases per year) of doing Backdoor Roths.

They can provide perspective, insights, and strategies tailored to your unique situation, and ensure you're following the most up-to-date IRS guidelines and contribution limits.





Like this guide? Subscribe to <u>Making Cents</u>, my wealth-building newsletter for tech high-earners.

📖 Resources

These forms are integral to reporting and tracking your IRA contributions, conversions, and distributions, ensuring compliance and optimizing your Backdoor Roth IRA strategy.

- Form 1040, U.S. Individual Income Tax Return
 - IRS Form 1040: <u>https://www.irs.gov/forms-pubs/about-form-1040</u>
- Form 8606, Nondeductible IRAs
 - IRS Form 8606: <u>https://www.irs.gov/forms-pubs/about-form-8606</u>
- Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
 - IRS Form 1099-R: <u>https://www.irs.gov/forms-pubs/about-form-1099-r</u>
- 1. <u>https://www.irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-</u> 2023
- 2. https://www.irs.gov/publications/p590a
- 3. https://www.bankrate.com/retirement/roth-vs-traditional-ira-calculator/
- 4. <u>https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-</u> <u>contributions-savers-credit</u>
- 5. https://taxfoundation.org/data/all/federal/historical-income-tax-rates-brackets/

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