



Yes, you might be able to create a Roth individual retirement account (IRA) if you're over the income limit. This strategy involves converting a traditional IRA to a Roth IRA.

The idea, often referred to as a “backdoor Roth conversion,” is sometimes used by individuals whose incomes exceed the current limits for direct Roth IRA contributions.

There are pros and cons associated with a backdoor Roth conversion, including tax consequences. Keep in mind that this email is just a high-level overview that should be used for informational purposes only. Tax, legal, and accounting professionals can provide more detailed insights about the tax implications of this strategy.

Let's break down this strategy step by step.

First, you'll need a traditional IRA. For 2025, you can contribute up to \$7,000 or \$8,000 if you're 50 or older. Your contributions may be tax deductible, depending on your situation, but keep in mind that income limits and other requirements may affect your eligibility.

If you move ahead with a traditional IRA, remember that once you reach the age of 73, you must begin taking the required minimum distributions from a traditional IRA in most circumstances. Withdrawals from traditional IRAs are taxed as ordinary income and, if made before age 59½, may be subject to a 10% federal income tax penalty.

Second, timing matters. One strategy suggests that individuals who convert their traditional IRAs to Roth IRAs sooner rather than later may be more effective in managing their taxes.

Pro tip: The IRS looks at all your traditional IRAs together when calculating taxes on your conversion. This “pro rata rule” means that having existing traditional, SEP-IRAs, or SIMPLE IRAs could affect your tax bill. Your tax, legal, and accounting professionals can provide more detailed insights about how the rule applies in your situation. SIMPLE IRAs and SEP-IRAs are taxed as ordinary income and follow the same distribution rules and penalties as those of traditional IRAs.

Any questions about Roth IRAs? Like I mentioned in my last email, I'm here to chat, and I hope you take me up on it.

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