High Income Earners and Roth Eligibility

The Roth IRA is one of the most advantageous retirement savings vehicles. It allows you to make post-tax contributions into a savings account that can be used in retirement without tax liability once certain conditions have been met[1]. Additionally, Roth IRAs provide you the flexibility to withdraw principle-only contributions without penalty, and unlike a Traditional IRA, a Roth IRA does not require minimum distributions[2] at age 70 ½. Unfortunately, Roth IRA eligibility is often misunderstood because of the IRS Contribution limits in *IRS Publication 590-A*. It may seem as if Roth IRAs exclude participation from individuals who earn higher incomes. While it is important to familiarize yourself with the table on the second page, we will show you how to contribute to a Roth IRA regardless of how high your income may be.

Roth Conversion

Despite the income contribution limits depicted in the table, all individuals with earned income[3] can indirectly contribute to a Roth IRA through a Roth conversion. In fact, if you have a higher salary, a Roth IRA is an excellent option outside of your employer sponsored retirement plan.

In order to understand the reasoning behind a Roth conversion, we first need to briefly review a few key differences between Traditional and Roth IRAs. With a Traditional IRA you may also participate in an employer sponsored retirement plan and deduct your contributions if you earn a maximum of $71,000 per year ($118,000 for married individuals who file jointly with their spouse). Any contributions you make to a Traditional IRA will grow tax-deferred, meaning income tax would need to be paid upon distribution. Additionally, Traditional IRAs require minimum distributions by April 15th following the year you turn 70 ½. Given that a Traditional IRA may not always provide an income deduction, the Roth IRA becomes more appealing as it provides you significantly more advantage with its potentially tax-free withdrawal characteristic and its absence of required distributions.

If you exceed the IRS income limits shown in *IRS Publication 590-A* for Roth IRA contributions or gain little to no tax deduction from Traditional IRA contributions, you should consider taking advantage of a Roth conversion. A Roth conversation allows you to convert your Traditional IRA to Roth without incurring a penalty. As mentioned, higher income earners may contribute to a Traditional IRA but may deduct little to none of their contributions. By choosing to make a non-deductible contribution to a Traditional IRA and immediately initiating a Roth conversion, higher income earners may indirectly contribute to a Roth IRA penalty free. What makes this strategy successful is that no tax deduction is given to you when making your contribution; therefore no tax will be owed on the converted assets. This strategy is often referred to as a Backdoor Roth IRA.

When initiating a Backdoor Roth conversation, the conversion should be overseen by your financial professional as other retirement assets may trigger unintended taxable consequences. Your financial professional may take a holistic approach regarding any changes to your retirement planning and may identify additional ways to help you.

[1] The account has been established for five years and the account owner has reached 59 ½.
[2] Inherited Roth IRAs will require the account holder to take minimum distributions.
[3] Earned income refers to income gained through employment (wages, salaries, tips, etc.).

Roth IRA Income Limits: Internal Revenue Service Publication 590-A

If your filing status is	And your modified AGI is…	Then you can contribute…
Married filing jointly or **qualifying widow(er)**	< $183,000	Up to $5,500 ($6,500 for individuals age 50 and older)
	≥ $183,000 but < $193,000	A reduced amount to be calculated by your tax professional.
	≥ $193,000	Zero
Married filing separately and you lived with your spouse at any time during the year	< $10,000	A reduced amount to be calculated by your tax professional.
	≥ $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	< $116,000	Up to $5,500 ($6,500 for individuals age 50 and older)
	≥ $116,000 but < $131,000	A reduced amount to be calculated by your tax professional
	≥ $131,000	Zero
