Can I Create a Roth if Iâ€™m Over the Income Limit?

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.

Keep in mind that there are pros and cons associated with a backdoor Roth conversion, including tax consequences. This article provides 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.

Why Consider a Roth IRA?

Think of a Roth IRA as one piece of your retirement income puzzle. When you peek behind the curtain, here are some of the features that some retirement-minded people consider important:

- Unlike their traditional IRA cousins, required minimum distributions do not apply to original owners of Roth IRAs. That can play a role as you create an estate strategy.
- When retirement rolls around, Roth IRAs can add flexibility to your income strategy since you’ve already paid taxes on that money.
- To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be made under other circumstances, such as the owner’s death. The original Roth IRA owner is not required to make minimum annual withdrawals.

How Does a Backdoor Roth Conversion Work?

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 RIAs 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.

So Much to Consider

Owning a Roth IRA can provide flexibility when creating a retirement strategy and managing an estate. However, similar to any idea, it isn’t one-size-fits-all. Many factors should be considered, including your tax situation, existing IRA balances, and long-term objectives.

1. IRS.gov, November 12, 2024