



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



tailoredcents.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

★ Is a Backdoor Roth IRA Suitable for You?

📈 Step #1 Contribute to a Traditional IRA.

🔍 Ensure Proper Execution of Your Traditional IRA Contribution

🔄 Step 2: Convert your Traditional IRA to a Roth IRA.

📝 Ensure Accurate Reporting of Your IRA Conversion

📝 Form 1099-R

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🔒 Securing Your Roth Conversion's Tax-Free Status

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☕ The Cream & The Coffee Considerations

🔍 🧠 Backdoors and the Legend of the Lost Basis

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📖 Resources

★ 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 unshakably 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

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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.

If your filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or qualifying widow(er)	< \$218,000	up to the limit
married filing jointly or qualifying widow(er)	≥ \$218,000 but < \$228,000	a reduced amount
married filing jointly or qualifying widow(er)	≥ \$228,000	zero
married filing separately and you lived with your spouse at any time during the year	< \$10,000	a reduced amount
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 limit
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
single, head of household, or married filing separately and you did not live with your spouse at any time during the year	≥ \$153,000	zero

[Amount of Roth IRA Contributions That You Can Make For 2023 | Internal Revenue Service](#)

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?

🔄 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.



1 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

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If you're not covered by a retirement plan at work, use this table to determine if your [modified AGI](#) affects the amount of your deduction.

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single, head of household, or qualifying widow(er)	any amount	a full deduction up to the amount of your contribution limit .
married filing jointly or separately with a spouse who is not covered by a plan at work	any amount	a full deduction up to the amount of your contribution limit .
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 contribution limit .
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 at any time during the year, your IRA deduction is determined under the "Single" filing status.

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

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If you are covered by a retirement plan at work, use this table to determine if your [modified AGI](#) affects the amount of your deduction. See [IRAs](#) for more information.

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single or head of household	\$73,000 or less	a full deduction up to the amount of your contribution limit .
single or head of household	more than \$73,000 but less than \$83,000	a partial deduction.
single or head of household	\$83,000 or more	no deduction.
married filing jointly or qualifying widow(er)	\$116,000 or less	a full deduction up to the amount of your contribution limit .
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.

Topics for Retirement Plans

- [Individual Retirement Arrangements \(IRAs\)](#)
- [Types of Retirement Plans](#)
- [Retirement Topics — Required Minimum Distributions \(RMDs\)](#)
- [Published Guidance](#)
- [Retirement Plan Forms and Publications](#)
- [Correcting Plan Errors](#)
- [Retirement Topics](#)
- [Tax exempt & government entities division at-a-glance](#)
- [Retirement Plans](#)

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 Jointly	Head of Household	All Other Filers*
50% of your contribution	AGI not more than \$43,500	AGI not more than \$32,625	AGI not more 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 contribution	more than \$73,000	more than \$54,750	more than \$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.

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.

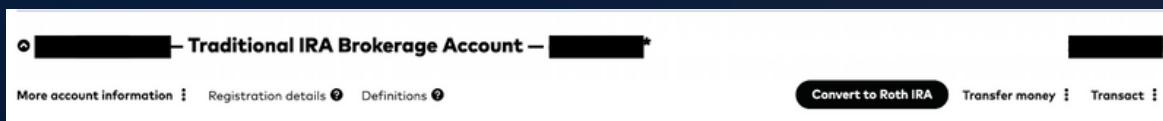
2 **Step 2: Convert your Traditional IRA to a Roth IRA.**

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.



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.

<input type="checkbox"/> CORRECTED (if checked)											
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.						1 Gross distribution		OMB No. 1545-0119			
						\$		2024		Form 1099-R	
						2a Taxable amount					
						\$					
PAYER'S TIN						2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>			
						RECIPIENT'S TIN					
3 Capital gain (included in box 2a)											
\$						\$					
RECIPIENT'S name						5 Employee contributions/ Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities			
						\$		\$			
Street address (including apt. no.)						7 Distribution code(s)		IRA/ SEP/ SIMPLE <input type="checkbox"/>		8 Other	
										\$ %	
City or town, state or province, country, and ZIP or foreign postal code						9a Your percentage of total distribution %		9b Total employee contributions \$			
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.		12 FATCA filing requirement <input type="checkbox"/>		14 State tax withheld		15 State/Payer's state no.		16 State distribution	
\$						\$				\$	
Account number (see instructions)				13 Date of payment		17 Local tax withheld		18 Name of locality		19 Local distribution	
						\$				\$	

Form 1099-R www.irs.gov/Form1099R Department of the Treasury - Internal Revenue Service

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.

Form 1040 Department of the Treasury—Internal Revenue Service **2023** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2023, or other tax year beginning _____, 2023, ending _____, 2024

Your first name and middle initial _____ **Last name** _____ **Your social security number** _____

If joint return, spouse's first name and middle initial _____ **Last name** _____ **Spouse's social security number** _____

Home address (number and street). If you have a P.O. box, see instructions. _____ **Apt. no.** _____

City, town, or post office. If you have a foreign address, also complete spaces below. _____ **State** _____ **ZIP code** _____

Foreign country name _____ **Foreign province/state/country** _____ **Foreign postal code** _____

Filing Status Single Married filing jointly (even if only one had income) Head of household (HOH) Married filing separately (MFS) Qualifying surviving spouse (QSS)

Digital Assets At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1959 Are blind **Spouse:** Was born before January 2, 1959 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
b Household employee wages not reported on Form(s) W-2		1b
c Tip income not reported on line 1a (see instructions)		1c
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
e Taxable dependent care benefits from Form 2441, line 26		1e
f Employer-provided adoption benefits from Form 8839, line 29		1f
g Wages from Form 8919, line 6		1g
h Other earned income (see instructions)		1h
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h		1z
2a Tax-exempt interest	2a	b Taxable interest
3a Qualified dividends	3a	b Ordinary dividends
4a IRA distributions	4a	b Taxable amount
5a Pensions and annuities	5a	b Taxable amount
6a Social security benefits	6a	b Taxable amount
c If you elect to use the lump-sum election method, check here (see instructions)	<input type="checkbox"/>	7
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	<input type="checkbox"/>	8
8 Additional income from Schedule 1, line 10		9
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		10
10 Adjustments to income from Schedule 1, line 26		11
11 Subtract line 10 from line 9. This is your adjusted gross income		12
12 Standard deduction or itemized deductions (from Schedule A)		13
13 Qualified business income deduction from Form 8995 or Form 8995-A		14
14 Add lines 12 and 13		15
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		

Standard Deduction for—

- Single or Married filing separately, \$13,850
- Married filing jointly or Qualifying surviving spouse, \$27,700
- Head of household, \$20,800
- If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2023)

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.

📄 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.

Form 8606 Nondeductible IRAs
OMB No. 1545-0074
2023
Attachment Sequence No. 48

Department of the Treasury
Internal Revenue Service
Attach to 2023 Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form8606 for instructions and the latest information.

Name, if married, file a separate form for each spouse required to file 2023 Form 8606. See instructions. Your social security number

Home address (number and street, or P.O. box if mail is not delivered to your home) Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete the spaces below (see instructions).
Foreign country name Foreign province/state/county Foreign postal code

Part I Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, Traditional SEP, and Traditional SIMPLE IRAs
Complete this part only if one or more of the following apply.
• You made nondeductible contributions to a traditional IRA for 2023.
• You took distributions from a traditional, traditional SEP, or traditional SIMPLE IRA in 2023 and you made nondeductible contributions to a traditional IRA in 2023 or an earlier year. For this purpose, a distribution does not include a rollover (other than certain qualified disaster distribution repayments from 2023 Form(s) 8915-F), qualified charitable distribution, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
• You converted part, but not all, of your traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023 and you made nondeductible contributions to a traditional IRA in 2023 or an earlier year.

1	Enter your nondeductible contributions to traditional IRAs for 2023, including those made for 2023 from January 1, 2024, through April 15, 2024. See instructions	1
2	Enter your total basis in traditional IRAs. See instructions	2
3	Add lines 1 and 2	3
	In 2023, did you take a distribution from traditional, traditional SEP, or traditional SIMPLE IRAs, or make a Roth, Roth SEP, or Roth SIMPLE IRA conversion? No — Enter the amount from line 3 on line 14. Do not complete the rest of Part I. Yes — Go to line 4.	
4	Enter those contributions included on line 1 that were made from January 1, 2024, through April 15, 2024	4
5	Subtract line 4 from line 3	5
6	Enter the value of all your traditional, traditional SEP, and traditional SIMPLE IRAs as of December 31, 2023, plus any outstanding rollovers. Subtract certain repayments of qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions)	6
7	Enter your distributions from traditional, traditional SEP, and traditional SIMPLE IRAs in 2023. Do not include rollovers (other than repayments of qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions)); qualified charitable distributions; a one-time distribution to fund an HSA; conversions to a Roth, Roth SEP, or Roth SIMPLE IRA; certain returned contributions; or recharacterizations of traditional IRA contributions (see instructions)	7
8	Enter the net amount you converted from traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023. Also, enter this amount on line 16	8
9	Add lines 6, 7, and 8	9
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	10
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth, Roth SEP, or Roth SIMPLE IRAs. Also, enter this amount on line 17	11
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth, Roth SEP, or Roth SIMPLE IRA	12
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13
14	Subtract line 13 from line 3. This is your total basis in traditional IRAs for 2023 and earlier years	14
15a	Subtract line 12 from line 7	15a
b	Enter the amount on line 15a attributable to qualified disaster distributions, if any, from 2023 Form(s) 8915-F (see instructions). Also, enter this amount on 2023 Form(s) 8915-F, line 18, as applicable (see instructions)	15b
c	Taxable amount. Subtract line 15b from line 15a. If more than zero, also include this amount on 2023 Form 1040, 1040-SR, or 1040-NR, line 4b	15c

Note: You may be subject to an additional 10% tax on the amount on line 15c if you were under age 59½ at the time of the distribution. See instructions.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63966F Form 8606 (2023)

Part I of Form 8606

Form 8606 (2023) Page 2

Part II 2023 Conversions From Traditional, Traditional SEP, or Traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs

Complete this part if you converted part or all of your traditional, traditional SEP, and traditional SIMPLE IRAs to a Roth, Roth SEP, or Roth SIMPLE IRA in 2023.

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, traditional SEP, and traditional SIMPLE IRAs to Roth, Roth SEP, or Roth SIMPLE IRAs in 2023	16	
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	17	
18	Taxable amount. Subtract line 17 from line 16. If more than zero, also include this amount on 2023 Form 1040, 1040-SR, or 1040-NR, line 4b	18	

Part II 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: [Free Financial Analysis - Online scheduling](#) 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.

Vs

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

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