



# ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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### Roth IRAs: Not Always the Right Move

A Roth IRA can be a powerful tool for retirement savings. Much has been written about the benefits of both tax-free growth and tax-free distributions. But every coin has two sides. No single retirement strategy is one-size-fits-all, and that includes Roth IRAs. For some, a Roth IRA may not be the right move.

#### No Contribution Allowed

An individual looking to fund a Roth IRA might consider making tax-year contribution of \$6,500 (or \$7,500 for those age 50 or over) directly to a Roth IRA. That is one way to get a Roth off the ground. However, this will not work for everyone. For some, Roth IRA contributions are simply not allowed.

The modified adjusted income (MAGI) phase-out ranges for Roth IRA eligibility in 2023 are \$218,000 - \$228,000 for those filing married/joint, and \$138,000 - \$153,000 for single filers. If MAGI is above these phase-out ranges, then individuals are prohibited from contributing directly to a Roth IRA.

Another barrier to Roth IRA contributions is not having earned income. To be eligible to open a Roth IRA (or traditional IRA) with a contribution, a person or a person's spouse must have "compensation." Wages, salary, commissions and other dollars received for personal services all qualify as compensation for IRA

contribution eligibility. Items that do not qualify as compensation include pension and annuity income, interest income, capital gains and Social Security benefits. No compensation equals no Roth IRA contribution.

Backdoor Roth IRA conversions, where an individual contributes to a traditional IRA and then converts that contribution, can be a way around the income limits on Roth contributions. There are no income limits on traditional IRA contributions. However, this strategy would not overcome a lack of compensation. Without compensation, no traditional IRA contribution can be made.

Making an ineligible contribution to a Roth IRA — *due to either income that is over the limit or lack of compensation* — will result in an excess contribution. This problem occurs frequently. Because Roth IRA contributions are not reported on the tax return, oftentimes they go untracked, allowing excess contributions to go on for years. A 6% penalty applies for each year the excess contribution remains in the Roth IRA.

#### Reasons Not to Convert

Roth IRA conversions are different than tax-year contributions. No compensation is needed for a conversion, and there are no income limits. The only requirement is to own a traditional IRA, SEP or SIMPLE IRA,

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