



KORBITZ FINANCIAL PLANNING

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January 2022 Special Tax Newsletter

You may be aware that the Build Back Better Act, discussed in my previous Tax Newsletter, did not pass in the Senate in 2021. That does not mean that it may not pass in 2022, in one form or another. The issue of Back Door Roth contributions, discussed in the previous Newsletter, could come back again.

Before you read any further, let me tell you who this issue applies to and who it does not apply to.

The Back Door Roth IRA does NOT apply to you, and you can stop reading if:

- You make regular contributions to a Roth IRA, or
- You are no longer working, and do not expect to have EARNED income in 2022, or
- You have a large rollover IRA.

All of the above would mean that you would not, or could not, do a Back Door Roth IRA contribution, and subsequent conversion.

The Back Door Roth IRA and the following discussion may apply to you if:

- You do not have a balance in a Traditional IRA or SEP-IRA, and
- You have previously made after-tax IRA contributions to a Traditional IRA and immediately converted those Traditional IRA balances to a Roth IRA, and
- You are working and expect to have at least \$7,000 of EARNED income in 2022.

If you are in the second camp, and have done Back Door Roth IRA contributions before, then I suggest that you:

- Make your 2022 after-tax IRA contribution to a Traditional IRA as soon as possible after 1/1/2022 and specify that this is your 2022 IRA contribution.
- Convert your 2022 after-tax IRA balance to a Roth IRA as soon as possible.
- The contribution limits for 2022 are the same as for 2021:
 - \$6,000 for those who are under age 50 for all of 2022.
 - \$7,000 for those who are age 50 or older at any time in 2022
- If you have made Back Door Roth IRA contributions in the past, and if you are a regular client, you should have instructions on what funds to invest in your Roth IRA once the money has been converted. If not, you can wait until your next meeting with me to determine that fund. The key is to get the contribution into the Traditional IRA as soon as possible, and to do the conversion to Roth as soon as possible.

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If you have any doubts as to whether you should make an after-tax IRA contribution, then I suggest that you wait to fund your IRA until we have a chance to discuss it.

If you have made “Mega Back Door Roth 401k” contributions in the past, the above would also apply. That is, you could still make those contributions and convert them, as of this writing. If you don’t know what a “Mega Back Door Roth 401k” is, then this does not apply to you.

Is it possible that Congress may make a Roth conversion of after-tax money done in early January a prohibited transaction? Yes, it is possible. I don’t think it is likely however, and if they did do that, I suspect that they would provide a “get out of jail free” card that would let you unwind the prohibited transaction with no penalties.

If you have done Back Door Roth contributions and conversions in the past, this may give you one more opportunity to do so.

Happy New Year!

Eric

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