RETIREMENT TAX SERVICES

Guide to getting IRS FORM 8606 RIGHT

Backdoor Roth Contributions **MADE EASIER!**

EVERY year we help taxpayers correct backdoor Roth contributions that got screwed up the first time around, so we created a checklist to help you ensure your client isn't the next person we need to help

5 QUESTIONS you need to ask on __every__ backdoor Roth contribution

1. Is a Back-Door Roth Contribution Right For This Client?

- Confirm sufficient Earned Income for the Tax Year of the contribution
  - A taxpayer has to have at least the amount of earned income they would like to contribute. REMINDER: For Married couples only one of the taxpayers needs earned income for both taxpayers to be eligible to contribute
- Confirm Available Funds
  - Know and communicate where the funds will come from. Especially for clients who are new to contributing outside of a 401(k) it may come as a surprise they have to cut a check as opposed to having withholdings
- Identify all qualified accounts
  - Don't accidentally incur the Pro-Rata rule
- Verify Existing basis (if any)
  - Should have been included on prior year form 8606
- Confirm timing works

2. Was the Traditional IRA contribution(s) done correctly?

- Is this a current year or prior year contribution?
  - Contributions can be made for a specific tax year through the initial filing deadline for that tax year. For example, 2025 contributions can be made all the way through April 15, 2026.
- How much are we contributing?
  - The contribution limit for 2025 is $7,000 per taxpayer under age 50 and $8,000 if they are over 50
- Where and how will the funds be transferred?
  - Set clear expectations on the timing and execution of the movement of funds
- How will the custodian report this contribution to the IRS?
  - Set expectations for how this will be reported on the 1099-R and the information the client's tax prepare will need to have a chance to get this right
- Was the contribution correctly reported as non-deductible on the 1040?
  - The amount of the contribution(s) should only be reported on form 8606 and not on schedule 1 of the 1040 as an IRA contribution.

3. Was the distribution from the Traditional IRA(s) done correctly?

The full amount should be included on line 4a of the 1040 but not included on line 4b.

4. Was the contribution to the Roth Account actually reported to the IRS as a Roth Conversion?

The funds have to end up in the right account AND the amount has to be reported on the right line of the tax return. In this case Form 8606.

5. Were the tax returns filed correctly?

The backdoor Roth contribution is not complete until it has been correctly reported to the IRS. This checklist needs to be used in the planning, execution and verification steps of the process which ends with reviewing a copy of the filed tax return.

Step by Step Guide to

REPORTING A BASIC BACKDOOR ROTH CONTRIBUTION ON THE FEDERAL TAX RETURN

Eligibility to contribute directly to Roth is based on Modified Adjusted Gross Income, which for most taxpayers is simply line 11 of the 1040. For 2025 the phase out for direct Roth contributions is between $236,000 and $246,000 for a married couple filing jointly. If this line is below that, then recommend the client simply contribute directly to the Roth account.

1040 line 11

11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	337,017.

The non-deductible contribution should NOT be reported as an IRA deduction on Schedule 1 of the 1040, ensure this line is blank

Schedule 1 part 2, line 20

20	IRA deduction	20	

The contribution must however be reported on form 8606 (a separate form for each taxpayer for married couples). This example assumes no basis was carried over from a prior year. Assuming $7,000 was contributed, that is the amount that should appear on lines 1, 3 and 5 of the 8606 to report the contribution that was made.

8606 part 1 lines 1, 3 and 5

1	Enter your nondeductible contributions to traditional IRAs for 2024, including those made for 2024 from January 1, 2025, through April 15, 2025. See instructions	1	7,000
2	Enter your total basis in traditional IRAs. See instructions	2	
3	Add lines 1 and 2	3	7,000
	In 2024, 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, 2025, through April 15, 2025	4	
5	Subtract line 4 from line 3	5	7,000

The IRA distribution is reported on the face of the 1040 on line 4. Box 4a should be the full amount of the backdoor Roth and line 4b should be $0 (this assumes no other IRA activity during the year, if the taxpayer has other IRA distributions the backdoor Roth will be included in the total but you will be able to parse out the details by reviewing the 8606).

1040 line 4

4a	IRA distributions	**4a**	7,000	**b** Taxable amount	**4b**	0

Assuming the Pro-Rata rule does not apply, line 13 of the 8606 report the amount of the distribution from the IRA that was non-taxable.

8606 part 1 line 13

13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13	7,000

The custodian will most likely report the backdoor Roth contribution with the amount included in Box 2a of the 1099-R "Taxable Amount". Box 2b "Taxable amount not determined" will also typically be checked but nowhere on the form will it indicate that this is in fact a backdoor Roth contribution or a distribution of a non-deductible IRA basis. This can cause confusion for the taxpayer and their tax preparer if you are not clearly communicating what happened.

Form 1099-R

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1 Gross distribution $ 7,000	2a Taxable amount $ 7,000
2b Taxable amount not determined [X]	Total distribution [X]
3 Capital gain (included in box 2a) $	**4 Federal income tax withheld** $
5 Employee contributions/ Designated Roth contrib. or insurance premiums $	6 Net unrealized appreciation in employer's securities $
7 Distribution code(s): 2 — IRA/ SEP/ SIMPLE: X	8 Other $ %

The conversion is reported in part 2 of the 8606 and would normally be the full amount of the backdoor Roth contribution on each of lines 16 and 17. This gets more complicated if there is a lag in timing between the contribution and distribution that resulted in a change in account value.

8606 part 2 lines 16 through 18

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 2024	16	7,000
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	7,000
18	**Taxable amount.** Subtract line 17 from line 16. If more than zero, also include this amount on 2024 Form 1040, 1040-SR, or 1040-NR, line 4b	18	

If the Pro-Rata rule applies (a.k.a cream in the coffee) the total SIMPLE, SEP and IRA basis is reported in this section and the amount of the distribution is then calculated and reported here. Many tax prep softwares will leave the numbers off the form and attach a worksheet instead (referenced as "IRS Pub. 590 Worksheet" in this example).

8606 part 1 lines 6-12

6	Enter the value of **all** your traditional, traditional SEP, and traditional SIMPLE IRAs as of December 31, 2024, plus any outstanding rollovers. Subtract certain 2024 retirement plan distribution repayments treated as rollovers, if any (see instructions)			6	
7	Enter your distributions from traditional, traditional SEP, and traditional SIMPLE IRAs in 2024. **Do not** include rollovers (but do include certain 2024 retirement plan distribution repayments treated as rollovers (see instructions)). Also, **do not** include 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 2024. Also, enter this amount on line 16			8	
9	Add lines 6, 7, and 8	9			IRS Pub. 590 Worksheet
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			

Client backdoor Roth Worksheet

Client Name(s): ____________________

Traditional IRA Acct#: ____________________

Roth IRA Acct#: ____________________

Traditional, SEP, SIMPLE IRA Balances on 12/31: ____________________

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Contribution Amount(s): ____________________

Contribution Date: ____________________

Conversion Date: ____________________

Tax Preparer: ____________________

Additional Notes

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A few more details to remember

- **MAGI for Roth IRA purposes is effected by student loan interest, foreign earned income, excludable qualified savings bond interest, excluded employer-provided adoption benefits.**
- **Inherited IRAs are treated separately for the pro-rata rule and require their own form 8606.**
- **December 31st is the key date for distributions and conversions to be completed and the key date for the pro-rata rule. Contributions for a tax year can occur through the filing of the return (up to the original filing date without extension).**