# Backdoor Roth IRA Strategy for High-Income Taxpayers

*A plain-English guide for taxpayers who earn too much to contribute directly to a Roth IRA*

High-income taxpayers may be unable to make a direct Roth IRA contribution, but a strategy commonly called a Backdoor Roth IRA may still provide access to Roth savings. For business owners, physicians, professionals, and other high-income taxpayers, this can be a useful addition to a 401(k), Solo 401(k), or other retirement plan.

## How a Backdoor Roth Works

### Step 1 - Make a Nondeductible Traditional IRA Contribution

The taxpayer contributes money to a Traditional IRA. For a high-income taxpayer who is already covered by a retirement plan at work, this contribution will commonly be nondeductible. In other words, the taxpayer does not receive a current-year income-tax deduction for the contribution.

### Step 2 - Convert the Traditional IRA to a Roth IRA

After making the Traditional IRA contribution, the taxpayer converts the money from the Traditional IRA into a Roth IRA. If the contribution was made with after-tax dollars, the conversion occurs before significant earnings accumulate, and the taxpayer has no other pretax IRA balances, there may be little or no additional taxable income from the conversion. The transaction is generally reported on IRS Form 8606.

## 2026 Contribution Limits

| Contribution Type | Under Age 50 | Age 50+ |
|---|---|---|
| IRA contribution limit | $7,500 | $8,600 |
| 401(k) employee deferral | $24,500 | Catch-up rules apply |
| 401(k) overall defined-contribution limit | $72,000 | Plus applicable catch-up |

## A Married Couple May Potentially Double the Opportunity

IRAs are individual accounts. Therefore, a married taxpayer and spouse may each potentially complete a separate Backdoor Roth transaction, assuming each is eligible to make an IRA contribution.

For 2026, a taxpayer under age 50 could potentially contribute $7,500 and the spouse could separately contribute $7,500, for a combined $15,000 of annual Roth funding. This may be done in addition to contributions to an employer-sponsored retirement plan, subject to the applicable rules.

## How This Works With a Solo 401(k)

A business owner may already have a Solo 401(k) or similar qualified retirement plan. A qualifying spouse who legitimately works for the business may also participate, depending on the plan terms.

- 401(k) contributions are primarily designed to build retirement savings and may provide a current tax benefit depending on whether contributions are traditional or Roth.
- Backdoor Roth IRA contributions are designed to create an additional pool of money that may ultimately grow and be distributed tax-free when Roth requirements are satisfied.

Importantly, money held inside a 401(k) does not create the IRA pro-rata issue discussed below.

## Why a Backdoor Roth Can Be Valuable

### 1. Potential Tax-Free Growth

Once money is properly converted into a Roth IRA, future investment growth may ultimately be received free of federal income tax when the Roth distribution requirements are satisfied.

### 2. Tax-Free Qualified Retirement Withdrawals

Traditional retirement accounts generally create taxable income when money is withdrawn. Qualified Roth IRA distributions generally do not.

### 3. Tax Diversification

Many high-income taxpayers accumulate substantial pretax retirement balances. A Roth IRA provides a separate tax-free bucket that can create more flexibility in retirement.

### 4. No Lifetime Required Minimum Distributions for the Roth IRA Owner

Roth IRA owners are generally not required to take lifetime distributions simply because they reach a particular age.

### 5. Potential Estate-Planning Benefits

A Roth IRA can also be an attractive asset to leave to beneficiaries, although inherited Roth IRAs remain subject to distribution rules.

## The Most Important Warning: The Pro-Rata Rule

This is the area that should be reviewed carefully before completing a Backdoor Roth. The IRS generally looks at the taxpayer's Traditional IRA, SEP IRA, and SIMPLE IRA balances when determining how much of a Roth conversion is taxable. Form 8606 is used to track nondeductible IRA basis and report Roth conversions.

**Example of the Pro-Rata Rule**

Traditional IRA balance: $292,500

Nondeductible IRA contribution: $7,500

Total IRA balance: approximately $300,000

After-tax basis: approximately 2.5% of the total IRA pool

*If the taxpayer converts $7,500, the IRS does not generally allow the taxpayer to simply identify all $7,500 as the after-tax portion. A significant part of the conversion could therefore be taxable.*

## Accounts That Can Create a Problem

- Traditional IRA
- Rollover IRA
- SEP IRA

- SIMPLE IRA

An old retirement account from a previous employer or prior business can create an unexpected tax consequence. These balances should be identified before the conversion is completed.

## A 401(k) Is Different

A 401(k), including an appropriately established Solo 401(k), is a qualified retirement plan rather than an IRA. Its balance is not included in the Traditional/SEP/SIMPLE IRA pool used for the Backdoor Roth pro-rata calculation.

In some situations, an existing pretax IRA may be eligible to be rolled into a qualified 401(k) plan that accepts incoming rollovers. That can potentially eliminate or reduce the IRA balance creating the pro-rata issue. Plan rules and rollover eligibility should be reviewed before making any transfer.

## Example of Long-Term Growth

Consider a married couple that contributes a combined $15,000 per year to Roth IRAs through Backdoor Roth transactions. If they continue for 25 years and earn a hypothetical average annual return of 7%, their combined Roth accounts could grow to approximately $949,000.

Their total contributions would equal $375,000, while approximately $574,000 could represent investment growth. If all Roth IRA requirements are satisfied, that growth may ultimately be distributed without federal income tax. This example is for illustration only; investment returns are not guaranteed.

## What Are the Downsides?

### No Current Tax Deduction

The taxpayer normally receives no deduction for the nondeductible IRA contribution. The tax benefit is primarily designed for the future.

### Existing IRA Balances Can Create Taxable Income

Traditional, SEP, SIMPLE, and rollover IRA balances can make part of the Roth conversion taxable because of the pro-rata rules.

### Additional Tax Reporting Is Required

Form 8606 generally must be prepared correctly to track nondeductible IRA basis and report the conversion.

### Investment Earnings Before Conversion May Be Taxable

If the Traditional IRA earns money before it is converted, those earnings may generally be taxable when converted.

### Tax Laws Can Change

Contribution limits and retirement-plan rules change over time, so the strategy should be reviewed annually.

## Combining a Solo 401(k) and Backdoor Roth

For many high-income business owners, the Backdoor Roth should not be viewed as a replacement for the company retirement plan. The two strategies may work together.

- Maximize employee contributions to a Solo 401(k).

- Have the company make allowable employer contributions to the Solo 401(k).
- Have a qualifying spouse participate in the retirement plan.
- Make a separate nondeductible Traditional IRA contribution.
- Convert that contribution into a Roth IRA.
- Have the spouse complete a separate Backdoor Roth transaction.

## The Bottom Line

A Backdoor Roth IRA can be a very useful strategy for a high-income taxpayer who earns too much to make a normal direct Roth IRA contribution. The strategy does not provide an immediate deduction. Instead, it allows the taxpayer to potentially move after-tax dollars into a Roth IRA where the funds may compound for many years and ultimately provide tax-free qualified retirement income.

For married business owners, the opportunity may be greater because each spouse can potentially establish and fund a separate Roth IRA. However, the strategy should not be completed without first checking for existing Traditional, rollover, SEP, or SIMPLE IRA balances.

## Before Making a Backdoor Roth Contribution

- Existing IRA balances
- Current employer retirement plans
- Solo 401(k) or profit-sharing plan contributions
- Spousal retirement-plan participation
- Prior nondeductible IRA contributions
- Form 8606 history
- Current and projected income-tax position

**Certified Tax Experts Inc can review your retirement structure and determine whether a Backdoor Roth IRA may be appropriate as part of your overall tax and retirement strategy.**