The Backdoor Roth Guide

> A backdoor Roth lets high earners fund a Roth IRA through the side door. The catch is the pro-rata rule, which can tax a conversion you thought was tax-free.

High earners are shut out of contributing to a Roth IRA directly once their income passes the limit. The backdoor Roth is a legal workaround, and it is simple in theory. The part that surprises people is the pro-rata rule, which can turn a supposedly tax-free move into a taxable one.

What the backdoor actually is

The Roth IRA has an income limit for direct contributions, but the traditional IRA has no income limit for nondeductible contributions, and conversions from traditional to Roth have no income limit at all. The backdoor uses that gap.

You contribute to a traditional IRA with after-tax dollars, then convert that balance to a Roth. Because the contribution was already taxed, the conversion is meant to be tax-free. For someone with no other IRA money, it usually is.

The pro-rata rule, in plain English

The catch is that the tax rules do not let you convert only your after-tax dollars. They treat every dollar across all your traditional, SEP, and SIMPLE IRAs as one blended pool, and any conversion is taxed in proportion to how much of that pool is pre-tax.

Suppose you make a 7,000 dollar nondeductible contribution but already hold 63,000 dollars of pre-tax IRA money. Your total IRA pool is 70,000 dollars, and 90 percent of it is pre-tax. So 90 percent of any 7,000 dollar conversion, about 6,300 dollars, is taxable. At a 24 percent rate that is roughly 1,512 dollars of unexpected tax. The Backdoor Roth Calculator computes this for your balances.

How to avoid the pro-rata bill

The clean case is having no pre-tax IRA balance at all, so the conversion is fully after-tax and tax-free. If you do hold pre-tax IRA money, one common fix is to roll it into an employer 401(k) first, if the plan allows it, since 401(k) balances are not counted in the pro-rata pool.

After that roll-in, only your fresh nondeductible contribution remains in the IRA, and the conversion goes through clean. Timing matters too, because the rule looks at your IRA balances at year end, not the day you convert.

Whether it is worth it

For a high earner with no pre-tax IRA balance, the backdoor Roth is a straightforward way to add tax-free retirement money each year that would otherwise be off limits. The steps are a contribution, a conversion, and reporting it on Form 8606.

If you have a large pre-tax IRA and no way to roll it into a 401(k), the pro-rata tax may make it less attractive, and a plain Roth conversion strategy could serve you better. Run your specific balances before assuming it is free.

> **Key takeaway.** A backdoor Roth is only tax-free if you have no pre-tax IRA balance. Otherwise the pro-rata rule taxes most of the conversion, so clear the IRA into a 401(k) first.

Assumptions

- The strategy is a nondeductible traditional IRA contribution followed by a conversion to Roth.
- The pro-rata rule treats all your traditional, SEP, and SIMPLE IRA balances as one pool when figuring the taxable portion.
- The IRA contribution limit shown is the 2026 figure and changes with the tax year.

Sources

- IRS, Roth IRA income limits and contributions
- IRS, Form 8606 for nondeductible IRAs and the pro-rata rule