ARC & LEDGER
§ TAX STRATEGY BRIEFING · 2026

The Backdoor Roth and Roth Conversions

A plain-language guide to tax-free retirement growth for high-income earners · Current as of July 2026

> **How to use this briefing.** This is general educational information for the 2026 tax year, reflecting published IRS figures. It is not individual tax, legal, or investment advice, and not every plan permits the strategies described. Use it to see which doors may be open to you, then confirm the details with us before acting.

Earning a strong income should not close the door on tax-free retirement growth. It simply changes the route you take. A Roth account is one of the most valuable things you can own: you contribute money you have already paid tax on, it grows for life, qualified withdrawals come out completely tax-free, and there are no required minimum distributions during your lifetime. The catch for high earners is the income limit on *direct* Roth IRA contributions. Two things the law does not limit by income, though, are a nondeductible contribution to a traditional IRA and a conversion of traditional dollars to Roth. Used together, those are the "backdoor."

§ 01 · Who is phased out of a direct Roth IRA in 2026

FILING STATUS	FULL CONTRIBUTION BELOW	NO DIRECT CONTRIBUTION ABOVE
Single or head of household	**$153,000**	**$168,000**
Married filing jointly	**$242,000**	**$252,000**
Married filing separately	**$0**	**$10,000**

Ranges are modified adjusted gross income (MAGI); inside the range the allowed contribution is reduced. The three doors this briefing covers: the **backdoor Roth IRA** (up to $7,500 converted, available to almost anyone with earned income), the **mega backdoor Roth** (tens of thousands more through a workplace plan that allows it), and **Roth conversions** of pre-tax balances you already hold.

§ 02 · The backdoor Roth IRA, step by step

It is not a special account or a loophole product. It is two ordinary transactions done in sequence, then reported on one tax form.

1. **Contribute to a traditional IRA (nondeductible).** Add up to $7,500 for 2026, or $8,600 if you are age 50 or older. Because your income is high, this contribution is not deductible, which is exactly what you want: you are parking after-tax money.
2. **Convert that money to a Roth IRA.** Once the contribution settles, convert it. There is no income limit on conversions; many custodians let you do it online in a few clicks.
3. **Report it on Form 8606.** This records that your contribution was after-tax (your "basis") so you are not taxed twice when it converts. We prepare it as part of your return.
4. **Invest inside the Roth.** Cash that lands in a Roth does nothing on its own; choose investments so it can grow. From here, qualified growth and withdrawals are tax-free.

> **The clean case.** Contribute $7,500.00 to a traditional IRA with no other IRA money and convert it before it earns anything: $0.00 of growth, $0.00 taxable on the conversion, and $7,500.00 now growing tax-free. Where the household has enough earned income, a non-earning spouse can fund a spousal IRA too, giving a married couple two backdoor Roths a year.

§ 03 · The pro-rata rule: the trap to plan around

This is the single most misunderstood part of the backdoor Roth. When you convert, the IRS does not let you cherry-pick only the after-tax dollars. It adds up every traditional, SEP, and SIMPLE IRA you own and treats your conversion as coming proportionally from after-tax and pre-tax money combined. Your 401(k) at work is not counted, only IRAs.

The same $7,500.00, with a pre-tax rollover in the picture. Say you also hold a $50,000.00 rollover IRA from an old 401(k), all pre-tax. Now the conversion is measured against $57,500.00 of total IRA money:

THE PRO-RATA MATH	AMOUNT
Nondeductible contribution (after-tax basis)	**$7,500.00**
Existing pre-tax rollover IRA	**$50,000.00**
Total IRA money the IRS measures	**$57,500.00**
After-tax share ($7,500.00 / $57,500.00)	**13.04%**
Tax-free portion of the conversion	**$978.26**
Taxable portion of the conversion	**$6,521.74**
Illustrative extra federal tax at 32%	**$2,086.96**

> **The fix, done before December 31.** If your employer plan accepts roll-ins, roll your pre-tax IRA balances into your 401(k). That empties your IRAs of pre-tax money, so the conversion is measured against basis alone and comes through tax-free. The pro-rata test looks at your IRA balances on December 31 of the conversion year, so this must be finished by year-end, not by April.

§ 04 · The mega backdoor Roth

If your workplace 401(k) is built the right way, you can move far more than $7,500 into Roth each year. Most people know the $24,500 limit on what you personally defer in 2026; fewer know there is a much larger ceiling on *total* additions to the plan: $72,000, counting your deferrals, the employer match, and any after-tax contributions. The mega backdoor fills the gap with after-tax dollars, then converts them to Roth.

- Max your regular deferral ($24,500) and collect the full employer match.
- If the plan allows it, add after-tax contributions up to the $72,000 total, minus what you and your employer already put in (about $47,500 of room when there is no match; any match reduces it dollar for dollar).
- Convert those after-tax dollars promptly to Roth, through an in-plan conversion or a rollover, so taxable growth stays near zero. Your plan must permit both after-tax contributions and in-plan conversions or in-service withdrawals.

At age 50 or older, catch-up contributions sit on top of the $72,000: a ceiling of $80,000 at 50-plus, and $83,250 at ages 60 to 63 (a larger $11,250 catch-up replaces the $8,000 one those years).

§ 05 · Roth conversions of money you already hold

The first two doors get new money into Roth. This one repositions pre-tax balances you have already built (a traditional IRA, an old 401(k), a SEP). You can convert at any income level; the price of admission is paying income tax on the amount converted, in the year you convert it. Done thoughtfully, that is less a cost than a choice about *when* to pay a tax you were always going to owe. A conversion tends to make sense when you are in a lower-income year, expect higher rates later, want tax diversification, or are planning your estate (Roth dollars pass to heirs free of income tax, with no lifetime RMDs).

Weigh before converting: pay the tax from money outside the retirement account (using the IRA itself shrinks the benefit and may add a penalty under 59 and a half); a large conversion can jump you a bracket, so it often works better spread across several years; higher income now can raise Medicare premiums about two years later (the IRMAA surcharge); and converting in a high-tax state before a move to a lower-tax one may be worth timing.

> **The two five-year rules, briefly.** Earnings come out tax-free once you are 59 and a half and any Roth IRA has been open five years (this clock starts with your first-ever Roth contribution or conversion). Separately, each conversion has its own five-year clock: under 59 and a half, withdrawing converted money before its five years are up can trigger a 10% penalty on the amount that was taxable when converted. Past 59 and a half this no longer bites, and your own contributions can always come out tax and penalty free.

§ 06 · Timing, mistakes, and a short checklist

ACTION	DEADLINE
2026 IRA contribution (the backdoor's first step)	**April 15, 2027**
Roth conversion counted in 2026 income	**December 31, 2026**
Empty pre-tax IRAs to sidestep pro-rata	**December 31, 2026**

A contribution can be made after year-end, but a conversion is always taxed in the calendar year it happens, which is why the pro-rata cleanup has a hard year-end deadline. **Mistakes we help clients avoid:** running a backdoor Roth while holding pre-tax IRA money and triggering pro-rata by surprise; leaving the converted cash uninvested; forgetting Form 8606; converting a large pre-tax balance in a single year and jumping a bracket; and paying the conversion tax out of the retirement account itself.

2026 quick reference

ACCOUNT	BASE LIMIT	AGE 50+ CATCH-UP
Traditional / Roth IRA	**$7,500**	**+$1,100**
401(k) / 403(b) elective deferral	**$24,500**	**+$8,000**
401(k) total additions (all sources)	**$72,000**	catch-up on top

A larger $11,250 catch-up applies at ages 60 to 63 for workplace plans, in place of the $8,000. Sources for 2026 figures: IRS Notice 2025-67 and the IRS retirement-limit release. Conversion income limits reflect the repeal of the modified-AGI ceiling effective 2010.

QUESTION	ANSWER
Income limit on Roth conversions?	None, at any income.
Income limit on nondeductible IRA contributions?	None.
Is the backdoor Roth allowed in 2026?	Yes. No law has changed it.
Does the pro-rata rule count my 401(k)?	No, only IRAs.
Which form documents the strategy?	Form 8606.

> **Let's put this to work for you.** Every strategy here turns on your specific numbers: your income, your existing accounts, your plan's features, and the years ahead. Arc & Ledger LLC is an Enrolled Agent firm in Culver City, California; we will look at your accounts, confirm which doors are open to you, and map the cleanest sequence for the year. Book a review: **arcandledger.com/book-a-call/** or call **(323) 214-3812**.

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