

RETIREMENT STRATEGY • TAX PLANNING

# The Backdoor Roth IRA

How High Earners Can Still Access Tax-Free Retirement Growth

**John Koyle**, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors  
Red Cedar Wealth Advisors | Educational White Paper | [johnkoyle.com](http://johnkoyle.com)

## Key Takeaways

- A Roth IRA offers tax-free growth and tax-free qualified withdrawals in retirement, with no required minimum distributions during the original owner's lifetime.
- Direct Roth IRA contributions phase out for higher earners. In 2026, eligibility phases out between \$242,000 and \$252,000 of modified adjusted gross income for married couples filing jointly, and between \$153,000 and \$168,000 for single filers.
- The backdoor Roth is a legal, two-step method that lets high earners fund a Roth indirectly: contribute to a traditional IRA on a non-deductible basis, then convert it.
- The pro-rata rule can create an unexpected tax bill for anyone who already holds pre-tax IRA balances. This is the single most common mistake.

## Why This Matters

If your household income is high enough, the IRS will not let you contribute to a Roth IRA through the front door. For 2026, the ability of a married couple filing jointly to make a direct Roth contribution begins to phase out at \$242,000 of modified adjusted gross income and disappears entirely at \$252,000. For single filers, that range runs from \$153,000 to \$168,000.

That income ceiling locks many successful professionals out of one of the most efficient retirement accounts available. What most of them never learn is that a completely legal workaround exists, and it has been part of the tax landscape for over a decade.

This paper explains what the backdoor Roth IRA is, why it works, the one rule that trips people up, and who should think carefully before using it. It is written for educational purposes. Whether it fits your situation depends on facts this paper cannot see, which is exactly why the strategy is best executed with a qualified advisor and tax professional.

## First, Why the Roth IRA Is Worth the Trouble

The Roth IRA is, for many households, among the most attractive retirement accounts available. The money you put in has already been taxed, and from that point forward the account is remarkably efficient:

- Growth is tax-free, not merely tax-deferred. Dividends, interest, and capital gains inside the account are not taxed.
- Qualified withdrawals in retirement are tax-free.
- There are no required minimum distributions during the original owner's lifetime, so the money is not forced out on a government schedule.

That combination is rare, and it is why Congress placed an income limit on who can contribute directly. For high earners, that limit is the whole problem, and the backdoor is the answer.

## A Quirk of History That Opened the Door

---

In 2010, a change in the tax law removed the income limit on Roth conversions. Note the distinction: the income limit on contributions stayed in place, but the limit on conversions went away. That single change created the opening.

Once anyone, regardless of income, was allowed to convert a traditional IRA into a Roth, the path for high earners became straightforward. Fund a traditional IRA first, then convert it. There were legislative attempts to curtail this in 2021 that did not become law, and the strategy remains available today.

*The door is open today. Tax law changes, so no one should assume it stays open forever. That is an argument for understanding the strategy now, not for rushing into it without advice.*

## How the Backdoor Roth Works, Step by Step

---

### Step One: Make a Non-Deductible Contribution to a Traditional IRA

There is no income limit on contributing to a traditional IRA on a non-deductible basis. Anyone with earned income can do it. For 2026, the contribution limit is \$7,500, or \$8,600 if you are age 50 or older. Because you are not deducting this contribution, you are funding it with money that has already been taxed.

### Step Two: Convert the Traditional IRA to a Roth IRA

Shortly after the contribution, you convert the traditional IRA to a Roth. Since the dollars going in were already taxed, the conversion itself is generally tax-free, aside from any small gains earned in the brief window before conversion.

That is the entire mechanism. Two steps, and a high earner has legally funded a Roth IRA. The strategy is well established, but it is **not automatic and not without traps**, which brings us to the rule that catches the most people.

## The Pro-Rata Rule: The Trap Most People Miss

---

Here is where good intentions can turn into a surprise tax bill. The IRS does not look at your new non-deductible contribution in isolation. When you convert, it looks at all of your traditional IRA, SEP IRA, and SIMPLE IRA balances combined, and treats your conversion as coming proportionally from pre-tax and after-tax money across all of them.

In plain terms: if you already hold a large pre-tax IRA balance, perhaps from an old 401(k) rollover, you generally cannot simply convert your new after-tax contribution and treat it as tax-free. A proportional share of the conversion is treated as taxable, and the resulting tax can be meaningful.

**If you have existing pre-tax IRA balances, talk to your advisor before doing anything.** There are often ways to manage the pro-rata issue, such as rolling pre-tax IRA money into a current employer's 401(k) before executing the strategy, but those moves have to be planned and sequenced correctly. This is the step where do-it-yourself attempts most often go wrong.

## Who Should Consider This, and Who Should Pause

The backdoor Roth tends to fit a specific profile:

- High earners whose income exceeds the direct Roth contribution limits.
- People who have little or no existing pre-tax IRA balance, which keeps the pro-rata rule from causing problems.
- Households that already maximize other tax-advantaged accounts and want additional tax-free growth.

It deserves more caution, or at least more planning, if you hold significant pre-tax IRA balances, if you expect to need the converted funds in the very near term, or if your income situation is unusual in a given year. None of these are reasons to abandon the idea. They are reasons to map it out carefully first.

## The Bottom Line

For a high earner who is not using this strategy, the cost is quiet but real: tax-free growth that could have been accumulating, year after year. The backdoor Roth is legal, well established, and for the right person, one of the more efficient moves in personal finance.

The execution is where it lives or dies. The contribution and conversion are simple. The pro-rata rule and the coordination with the rest of your retirement picture are not. That is the part worth getting right with professional guidance.

*If you are a high earner and no one has walked you through whether the backdoor Roth fits your situation, that is a conversation worth having before the next tax year closes.*

---

## References and Sources

The following sources support the figures, rules, and statements described in this paper. They are provided for verification and for compliance review.

Internal Revenue Service. "Amount of Roth IRA Contributions That You Can Make for 2026." IRS.gov. <https://www.irs.gov/retirement-plans/plan-participant-employee/amount-of-roth-ira-contributions-that-you-can-make-for-2026>

Internal Revenue Service. "Retirement Topics – IRA Contribution Limits." IRS.gov. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>

Internal Revenue Service. Publication 590-A, "Contributions to Individual Retirement Arrangements (IRAs)." IRS.gov. <https://www.irs.gov/publications/p590a>

Internal Revenue Service. Publication 590-B, "Distributions from Individual Retirement Arrangements (IRAs)," which addresses the pro-rata rule for conversions. <https://www.irs.gov/publications/p590b>

Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), which removed the modified adjusted gross income limit on Roth conversions effective in 2010.

2026 contribution and income figures confirmed against published limits from Fidelity, Charles Schwab, and Vanguard investor education resources, December 2025.

---

## Important Disclosures

This white paper is published by John Koyle and Red Cedar Wealth Advisors for informational and educational purposes only and does not constitute personalized financial, tax, or legal advice. Nothing in this paper should be construed as a solicitation, offer, or recommendation to buy or sell any security, or to adopt any particular investment or tax strategy.

The backdoor Roth IRA strategy involves complex tax rules, including the pro-rata rule and step-transaction considerations that apply to conversions. Contribution limits and income thresholds cited reflect the 2026 tax year. You should consult a qualified tax professional before implementing any conversion strategy.

Investing involves risk, including the possible loss of principal. Past performance is not indicative of future results, and there can be no assurance that any investment strategy will achieve its objectives. No content in this paper is a prediction or projection of future performance. Tax laws, contribution limits, and regulations are subject to change; figures cited reflect rules in effect as of the date of publication. Please consult qualified legal, tax, and investment professionals regarding your specific situation.

References to third-party sources are provided for context and verification; their inclusion does not imply endorsement, and neither John Koyle nor Red Cedar Wealth Advisors is responsible for the content of third-party materials.

---

## Regulatory Disclosures

### Broker-Dealer Disclosure

Securities offered through Osaic Wealth, Inc., Member FINRA ([www.finra.org](http://www.finra.org)) / SIPC ([www.sipc.org](http://www.sipc.org)). Investment Advisory Services offered through Osaic Advisory Services, LLC. Osaic Wealth and Osaic Advisory are separately owned, and other entities and/or marketing names, products, or services referenced here are independent of Osaic Wealth and Osaic Advisory.

### State Registration (Blue Sky)

This communication is strictly intended for individuals residing in the states of Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, Texas, Utah, and Washington. No offers may be made or accepted from any resident outside the specific state(s) referenced.

### FINRA BrokerCheck

You can check the background of this financial professional on FINRA's BrokerCheck at <https://brokercheck.finra.org/individual/summary/4409795>. Full disclosures are available at [johnkoyle.com](http://johnkoyle.com).

*FOR ADVERTISING SUPERVISION: This educational white paper is a pre-publication draft submitted for review prior to going live on johnkoyle.com. It is intended as a retail communication for the firm-approved securities-related website. Disclosure language mirrors the approved disclosures currently published at johnkoyle.com. It will not be posted until written approval is received.*

### Red Cedar Wealth Advisors

John Koyle, AIF® (Accredited Investment Fiduciary), Co-Founder, Red Cedar Wealth Advisors

1414 East Center Street, Pocatello, Idaho 83201

(208) 915-8400 | [johnkoyle.com](http://johnkoyle.com)

© 2026 Red Cedar Wealth Advisors. All rights reserved.