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# Backdoor Roth Contributions

### INTRODUCTION

Roth retirement accounts are a powerful savings tool that allow investors to save money that will grow tax free, and from which they can make tax-free withdrawals. While there is no immediate tax benefit in the form of a deduction, long-term tax-free growth can benefit investors under the right circumstances.

Typically, you can contribute to a Roth retirement account directly, either in a Roth IRA or your employer’s retirement plan. For Roth IRAs, you can contribute up to $7,000 ($8,000 if you are over 50) in 2025 [1]. However, there are income limitations. For 2025 [2] :

- Taxpayers can make a full contribution if their income is less than $150,000 ($236,000 for married couples filing joint returns).
- Taxpayers can make a partial deduction if their income is between $150,000 and $165,000 (between $236,000 and $246,000 for married couples filing joint returns).

However, if you make too much to contribute directly to a Roth IRA, you may still be able to contribute to a Roth IRA by using the “backdoor” Roth contribution method.

## What is a Backdoor Roth Contribution?

A backdoor Roth contribution is a two-step strategy that allows you to contribute money to a Roth IRA even if your income exceeds standard Roth contribution limits. First, you must make a non-deductible contribution to a traditional IRA. Then, you immediately convert the account balance to a Roth IRA before investing it.

You can contribute $7,000 to a traditional IRA ($8,000 if you are 50 or older), [3] so long as your earned income is at least equal to the contribution. However, contributions are only deductible if your income is within certain thresholds. [4] If your income exceeds those thresholds, the contributions are not deductible.

While most distributions from a traditional IRA are taxable, including Roth conversions, any nondeductible contributions will give you “basis” in your IRA to make some or all of your IRA distributions tax-free. The basis is tracked on IRS Form 8606 and is generally filed with your tax return. When you make a distribution from your IRA, a portion of the distribution will be tax-free based on the proportion that the basis represents relative to the total IRA value in the year of distribution.

**Here is an example of a backdoor Roth contribution to highlight how IRA basis works:**

- *Assume a taxpayer makes a $7,000 nondeductible contribution to their IRA and then immediately converts this contribution to a Roth IRA. The taxpayer would have a $7,000 basis in their IRA account after the contribution, so the entire conversion would be a tax-free distribution of their basis. If the account is invested for 30 years and grows to $70,000, all distributions will be tax free.*

However, if the non-deductible contribution is kept in the traditional IRA until retirement, a portion of each distribution will be taxable. The untaxed portion of the distribution is equal to the portion that the basis represents of the traditional IRA account balance. [5] Continuing with the previous example, if the taxpayer kept the contribution in a traditional IRA for 30 years and then took a $10,000 distribution, the tax result would be:

- Total distribution: $10,000
- Amount attributable to basis: $1,000 (the nontaxable percentage equals the basis ($7,000) divided by the total account balance ($70,000), or 10%).
- Taxable portion: $9,000 (total distribution less the basis).

If you were to withdraw the entire account balance, only $63,000 would be taxable and $7,000 would be tax-free. Keeping the contribution in the traditional IRA makes all the account earnings taxable and puts you in a worse situation. So instead of keeping the nondeductible contribution in a traditional IRA, a backdoor Roth contribution provides a far superior alternative.

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# Beware of the Pro Rata Rule

A backdoor Roth contribution does not make sense for everyone, however, mainly because of the “pro rata rule” that applies to the allocation of basis for distributions from traditional IRAs for taxpayers that have basis. Essentially, you must look at all of your traditional IRA accounts to determine if the conversion is taxable. [6]

If we modify the original example and assume that the taxpayer has an IRA account worth $63,000 before they make the $7,000 non-deductible contribution to make the account worth $70,000, and attempted the backdoor Roth contribution, the results would be:

- Total distribution/conversion: $7,000
- Basis allocated: $700 (10%: the $7,000 basis divided by the $70,000 total IRA balance across all accounts ($70,000 original IRA plus the $7,000 contribution).
- Taxable portion: $6,300

As you can see, any balances in a traditional IRA account makes the backdoor Roth strategy much less attractive. Importantly, however, balances in traditional employer plans, such as 401(k)s and 403(b)s, do not count towards the pro-rata rule, so investors with balances in those plans can still make backdoor conversions.

# The Mega Backdoor Roth Contribution

A mega backdoor Roth is a related strategy for employees who participate in employer sponsored retirement plans that allow both after-tax contributions and in-service Roth conversions. If these requirements are met, an employee can contribute additional money to a Roth account over and above the standard 401(k) contribution limit.

The strategy requires two steps. First, you must make after-tax contributions to the 401(k). While employees can defer $23,500 [7] in 2025 in traditional (deductible) 401(k) or Roth 401(k) contributions [8], the law allows total contributions of $70,000 in contributions. [9] This means that you could potentially contribute an additional $46,500 in after tax contributions if your employer’s plan allows it. These contributions are non-deductible, and any earnings on these contributions would be ordinary income when distributed from the account.

The final step is to convert the after-tax contribution immediately to a Roth account within the plan. The pro-rata rule will generally not apply to any traditional pre-tax balances in the plan and will not be impacted by any traditional IRA account balances. The only time a conversion of an after-tax account balance to a Roth is potentially taxable is if the after-tax contributions are not immediately converted—any earnings or gains on those contributions are taxed as ordinary income.

# Conclusion

Roth retirement accounts can be powerful savings tools. Even if you are not allowed to contribute directly to a Roth, you can still make indirect Roth contributions through the backdoor method. Whether making these contributions makes sense for you depends on several factors, including your personal cash flow and spending goals. You should discuss these issues with your advisor to determine whether a backdoor Roth contribution is right for you.

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[1] https://www.irs.gov/pub/foia/ig/spder/ts-21-1124-1129.pdf
[2] https://www.irs.gov/pub/irs-drop/n-24-80.pdf
[3] Earned income refers to things like salary, bonus, consulting, or self-employment income.
[4] 2025 numbers:

- For single filers, you can take a full deduction of your income is $79,000 or less and a partial deduction if your income is between $79,000 and $89,000.
- For married couples filing jointly, you can take a full deduction of your income is $126,000 or less and a partial deduction if your income is between $126,000 and $146,000.

[5] https://www.irs.gov/pub/foia/ig/spder/ts-21-1124-1129.pdf
[6] 26 U.S.C. §408(d); 26 U.S.C. §72
[7] Not counting any catch-up contributions.
[8] https://www.irs.gov/pub/irs-drop/n-24-80.pdf
[9] These additional contributions can come from several sources: such as employer matching contributions, employer profit sharing contributions, or employee after-tax contributions.

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