

Mentoring at Scale

The Backdoor Roth

*The mechanics, the pro rata trap,
the two 5-year rules, and the
Form 8606 basis-tracking discipline.
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Backdoor Roth & Mega-Backdoor Roth — the Mechanics and the Pro Rata Trap

A high earner whose modified adjusted gross income is above the Roth contribution phase-out (\$150,000–\$165,000 single, \$236,000–\$246,000 MFJ in 2026) cannot make a direct Roth contribution. Two workarounds remain in the code: the Backdoor Roth (a non-deductible Traditional contribution followed by a conversion) and the Mega-Backdoor Roth (an after-tax 401(k) contribution followed by an in-plan Roth conversion or in-service distribution). Both work; both carry specific traps.

Snapshot: 2026-06-30

The backdoor Roth

Non-deductible Traditional, then convert

Step 1: Make a non-deductible Traditional IRA contribution up to the 2026 limit of \$7,000 (\$8,000 for age 50+). The contribution is not deductible because the taxpayer is above the deductibility phase-out. Basis is tracked on Form 8606.

Step 2: Convert the non-deductible Traditional balance to a Roth IRA. The converted amount is included in income; because the basis equals the contribution, the taxable portion is only the growth between contribution and conversion (typically small if converted quickly).

Step 3: Report the conversion on Form 8606. The basis eliminates the tax on the contribution portion; the earnings portion is taxed at the marginal rate.

The pro rata trap. The IRS applies a pro rata rule at conversion time. If the taxpayer has any Traditional IRA balance from prior deductible contributions or 401(k) rollovers, the conversion is a pro rata mix of basis and pre-tax dollars. The workaround: before executing a backdoor Roth, roll any existing Traditional IRA balance into an active employer 401(k) plan (if the plan accepts rollovers). Once the Traditional IRA is empty of pre-tax dollars, the pro rata rule leaves the backdoor conversion clean.

The mega-backdoor Roth

The 401(k) after-tax route to \$30k+ of Roth capacity per year

The mega-backdoor Roth is available only through certain employer 401(k) plans that permit both (a) after-tax employee contributions above the \$23,500 elective deferral limit and (b) in-plan Roth conversions or in-service withdrawals. Not every 401(k) plan permits both. Where available, the mega-backdoor Roth can move \$30,000–\$46,500 of after-tax capacity into the Roth wrapper each year.

The math: The §415(c) total defined contribution limit is \$70,000 (\$77,500 for age 50+). Subtract the employee's elective Roth or Traditional 401(k) contribution (\$23,500 at the elective limit) and the employer match. The remainder is the after-tax contribution capacity. That after-tax amount is then converted to Roth (in-plan or via in-service distribution to a Roth IRA).

Cross-references

Where to read next

Roth Conversion Strategy for standard conversion mechanics.

The Peter Thiel case for the founder-Roth flagship.

Educational reference. Not tax, legal, or investment advice. Consult a qualified professional for your specific situation.

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