

Mentoring at Scale

# Roth Conversion Strategy

*The multi-year conversion ladder,  
IRMAA-aware sizing, and the  
interaction with charitable giving.  
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## Roth Conversion Strategy — the Mechanics, the Pro Rata Trap, and the Two 5-Year Rules

A Roth conversion moves pre-tax Traditional IRA assets into a Roth wrapper by paying tax now on the converted amount. Done in the right year, at the right rate, with the right assets, the conversion trades a current tax bill for permanent tax-free compounding on the converted balance. Done wrong, it accelerates tax that could have been deferred at a lower future rate and can trigger the pro rata trap that catches most first-time converters.

**Snapshot:** 2026-06-30

The rule in one paragraph

### How conversion works

The conversion is an in-kind or in-cash transfer from a Traditional IRA to a Roth IRA. The transferred amount is included in the taxpayer's ordinary income in the year of conversion at the taxpayer's marginal rate. There is no income limit on the conversion itself. Post-conversion, the funds sit in the Roth wrapper and compound tax-free thereafter, with distributions taxable to the original owner never, provided the taxpayer meets the qualifying rules.

The pro rata trap

### Why partial conversion is not what most taxpayers think it is

The IRS applies a pro rata rule at conversion time: if the taxpayer has any non-deductible (basis) contributions in *any* Traditional IRA account (aggregated across all Traditional IRAs), the converted amount is a pro rata mix of pre-tax and after-tax basis. The taxpayer cannot cherry-pick and convert only the basis dollars. This is the classic trap: a taxpayer with \$5,000 of after-tax basis and \$95,000 of pre-tax balance who converts \$5,000 does not convert basis only. They convert 5% basis + 95% pre-tax, and owe tax on the pre-tax portion.

**The trap that catches backdoor-Roth attempts.** A high earner who makes a \$7,000 non-deductible Traditional contribution intending to backdoor-convert it into a Roth, but who has a \$200,000 rollover-IRA from a prior 401(k) sitting in the same tax-identity account universe, does

not convert \$7,000 of basis. They convert a pro rata mix that leaves them with a large taxable event. Fix: roll the \$200,000 back into an employer 401(k) (if permitted) before executing the backdoor.

The two 5-year rules

## They trap different taxpayers differently

**5-year rule #1 — the qualified distribution rule for Roth earnings.** Earnings distributions from any Roth IRA are tax-free only if (a) the account has been open at least 5 years since first contribution or conversion, and (b) the distribution qualifies (age 59½, first-home purchase up to \$10K, death, or disability). Contributed basis can always be withdrawn tax-free at any time; earnings only qualify after the 5-year window.

**5-year rule #2 — the conversion rule.** Each Roth conversion carries its own 5-year clock for the early withdrawal penalty. A taxpayer under age 59½ who withdraws a converted amount within 5 years of the conversion may owe a 10% early withdrawal penalty on the converted principal, even though the money would otherwise be basis.

Timing windows

## When conversion actually pays

**Income-drop years.** A year with unusually low ordinary income (sabbatical, job transition, early retirement, business loss carrying through) is the classic conversion window. The conversion is taxed at the lower marginal rate, and the converted balance then compounds tax-free in the Roth.

**Pre-RMD years.** Between retirement (or reduced-earnings) and RMD age 73, taxpayers often have several years where they can convert Traditional balances at moderate marginal rates before RMDs force distributions at potentially higher rates.

**Market drawdowns.** A Traditional IRA that has fallen in market value converts at that lower value, meaning less tax paid per share converted. When the market recovers inside the Roth wrapper, the recovery is entirely tax-free.

Cross-references

## Where to read next

Backdoor Roth & Mega-Backdoor Roth for high earners.

Traditional vs Roth for the base decision.

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