LION'S WEALTH
MANAGEMENT

A TAX PLANNING GUIDE

The Backdoor Roth IRA

A step-by-step guide for high earners, with the pro-rata rule explained in plain language.

PROVIDED TO YOU BY

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The Backdoor Roth IRA

A step-by-step guide for high earners, with the pro-rata rule explained in plain language.

Taxes are one of the largest, and most controllable, costs in retirement planning. The strategy in this guide is one we discuss often with high-income professionals and business owners who assume — incorrectly — that a Roth IRA is off the table once their income crosses a certain line.

Read it front to back, or jump to the section that fits where you are right now. Every example is hypothetical; your own results will differ. When something looks like it could apply to you, bring it to our next conversation.

How to use this guide

Superscript numbers refer to the sources and disclosures on page 12. Dollar figures and examples are illustrations only — they are not offers, projections, or guarantees.

Investment advisory services offered through Lion's Wealth Management, a Registered Investment Advisor with the State of Minnesota. This guide is educational and is not tax, legal, or investment advice.

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What's inside

01 STEP ONE

Why the Roth door closes for high earners

A Roth IRA offers tax-free growth, tax-free withdrawals, and no required minimum distributions during your lifetime — but the IRS limits who can put money into one directly.

For 2026, if your modified adjusted gross income (MAGI) is above $168,000 as a single filer, or above $252,000 filing jointly, you cannot contribute to a Roth IRA directly.[1] The phase-out begins at $153,000 single and $242,000 joint. This ceiling catches more households than it seems — a dual-income couple of two mid-career professionals can clear it without an extraordinary income.

$168,000
SINGLE FILER CEILING

$252,000
JOINT FILER CEILING

The good news: there is a completely legal, IRS-acknowledged path back in — and it has nothing to do with how much you earn.

02 STEP TWO

The two-step workaround

There is no income limit on contributing to a traditional IRA, and no income limit on converting a traditional IRA to a Roth IRA — Congress removed the conversion income cap in 2010 and has not reinstated it.

The backdoor Roth simply chains these two facts together.

Step 1 — Contribute

Make a non-deductible contribution to a traditional IRA. For 2026, the limit is $7,500, or $8,600 if you are age 50 or older.[2] Skip the tax deduction — that is what creates the after-tax basis the strategy relies on.

Step 2 — Convert

Within a few days, convert the traditional IRA balance to a Roth IRA. Since the contribution was never deducted, there's usually nothing left to tax on the way through — provided the condition in Step Three is met.

$7,500	$8,600
2026 CONTRIBUTION LIMIT	AGE 50+ CATCH-UP

Most brokerages have a button for this transaction, often labeled "convert to Roth." It is not a workaround the IRS is unaware of — it is a standard transaction the agency has acknowledged in writing.

03 STEP THREE

The pro-rata rule: the one condition that changes everything

The IRS does not allow you to isolate only the new, after-tax dollars when you convert. If you hold a balance in any traditional IRA, SEP IRA, or SIMPLE IRA — including an old rollover from a 401(k) you left years ago — the IRS treats every traditional-style IRA you own as a single combined account.[3]

Taxable portion = Conversion amount × (Pre-tax IRA balance ÷ Total IRA balance)

A HYPOTHETICAL EXAMPLE

Suppose you hold $90,000 in an old rollover IRA, all pre-tax. This year, you contribute $7,500 as new, after-tax money and convert it. Your total IRA balance on December 31 is $97,500.

$90,000	$7,500	92%
PRE-TAX BALANCE	NEW CONTRIBUTION	TAXABLE SHARE

Convert any of it, and the IRS taxes that same 92% — even though you intended to move only the new, already-taxed contribution. This is where a well-intentioned backdoor Roth turns into a surprise tax bill.

04 STEP FOUR

Clearing the way: the 401(k) rollover fix

If your current employer's 401(k) plan accepts incoming rollovers, you can typically roll pre-tax IRA balances into that plan before December 31 of the conversion year. Once those dollars are out of IRA land, the balance used in the pro-rata formula can drop to zero — clearing the way for a clean, close-to-tax-free backdoor Roth going forward.

WHO THIS MATTERS MOST FOR

- Anyone with an old rollover IRA sitting from a previous employer's 401(k) or 403(b)
- Business owners with a SEP IRA alongside a personal traditional IRA
- Anyone who has made both deductible and non-deductible IRA contributions over the years

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Use the companion Pro-Rata Rule Checklist alongside this guide to walk through your own accounts before you contribute a dollar.

05 STEP FIVE

The mega backdoor Roth: a bigger version of the same idea

If your 401(k) plan allows after-tax contributions with in-plan conversions, there's a larger version of this strategy. For 2026, total contributions to a 401(k) — employee, employer, and after-tax combined — are capped at $72,000 under IRC §415(c).[4]

That ceiling leaves meaningful room for after-tax contributions beyond the standard $24,500 employee deferral limit, depending on your plan's design and any employer match.

$72,000	$24,500
2026 TOTAL PLAN LIMIT	STANDARD DEFERRAL LIMIT

The underlying idea is identical to the standard backdoor Roth: after-tax money in, converted to Roth, growing tax-free from there. This is a more advanced conversation worth having directly with your plan administrator and your advisor.

06 STEP SIX

Three mistakes to avoid

1. Skipping Form 8606

This form establishes your after-tax basis.[5] Without it on file for every year you make a non-deductible contribution, the IRS has no record that tax was already paid — risking taxation of the same dollars twice down the road.

2. Forgetting an old rollover IRA

A balance from a job you left years ago still counts on December 31 and still triggers the pro-rata rule, whether or not it comes to mind when you file.

3. Assuming a mandatory waiting period

The step-transaction concern that once led people to wait a year between contribution and conversion has largely been set aside in practice.[6] Most people convert within days specifically to limit taxable growth in the interim.

This guide is designed to give you a clear picture of the mechanics before you act. Every household's mix of accounts, income, and timing is different. If you'd like a second set of eyes on whether a backdoor Roth makes sense for you this year, reach out to Lion's Wealth Management at nate@lionswealth.com.

ABOUT

Nathan Krampe

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Nathan Krampe is the founder and chief investment strategist of Lion's Wealth Management, an independent, fee-based fiduciary built for business owners, executives, and their families as they approach — or move through — retirement.

Nate built the firm around a simple observation: many of the people who spend their careers making high-stakes decisions for others rarely have someone doing the same for them. Lion's Wealth exists to be that advocate — with a legal duty to act in each client's best interest, not a product to sell.

The firm's investment approach is systematic rather than reactive, organized around four core pillars — Trade, Trend, Signal, and Strength — paired with the firm's proprietary LEAD framework for reading the broader economic backdrop. The goal in both is the same: fewer decisions made on instinct, more made on process.

> *You've spent your career making the tough calls for everyone else. This is the chapter where you make one for yourself.*

ABOUT

Lion's Wealth Management

Lion's Wealth Management is a rules-based fiduciary firm built to give business owners, executives, and their families a true advocate — someone with no products to sell and no commissions to chase, just a legal obligation to put clients first.

Based in St. Louis Park, Minnesota, the firm serves families and business owners nationwide who are approaching or already in retirement, guided by a systematic investment process and a disciplined approach to tax, legacy, and charitable planning.

Retirement income planning
From a paycheck to reliable income for life.

Tax mitigation strategies
Reducing the tax on income, investments, and withdrawals.

Estate and legacy planning
Wills, trusts, and beneficiary strategies that pass assets smoothly.

Wealth preservation
Rules-based management of what you have built.

Asset protection
Shielding wealth from risk, litigation, and unjust loss.

Charitable giving
Structured giving to the causes you value, tax-efficiently.

After a lifetime spent looking out for everyone else, someone is finally looking out for you.

REFERENCE

Sources & disclosures

1 IRS Notice 2025-67, "2026 Amounts Relating to Retirement Plans and IRAs," irs.gov. Roth IRA MAGI phase-out ranges for 2026: $153,000–$168,000 single; $242,000–$252,000 married filing jointly.

2 IRS Newsroom release, Nov. 13, 2025, irs.gov. 2026 IRA contribution limit of $7,500, with an $8,600 catch-up limit for those age 50 and older.

3 Vanguard, "Backdoor Roth IRA: What it is and how to set it up," investor.vanguard.com; IRC §408(d)(2). No income limit applies to traditional IRA contributions or Roth conversions since 2010; the pro-rata rule aggregates all traditional, SEP, and SIMPLE IRA balances when calculating the taxable portion of a conversion.

4 Fidelity, "What is a mega backdoor Roth?," fidelity.com; IRS Notice 2025-67. Total 2026 401(k) plan contribution limit of $72,000 under IRC §415(c).

5 IRS Form 8606 instructions, irs.gov. Form 8606 establishes after-tax basis in a traditional IRA and helps prevent double taxation of non-deductible contributions.

6 Practitioner commentary (National Tax Tools; Beancount.io) on the step-transaction doctrine as applied to backdoor Roth conversions; not a primary legal source. Consult your tax advisor on timing for your specific situation.

General

All examples in this guide are hypothetical and for illustration only. Contribution limits, income thresholds, and tax rules referenced are current for the 2026 tax year and are subject to change. Neither Lion's Wealth Management nor its representatives provide tax or legal advice; consult your own tax advisor or attorney regarding your specific situation.

LET'S TALK

Call today with questions, or to see whether this fits your situation.

There is no charge for an initial conversation.

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