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How to use the "backdoor Roth IRA" strategy

Blog

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- Roth Individual Retirement Accounts (IRAs) allow investors to pay tax at current tax rates but enjoy tax-free growth and tax-free distributions in retirement. Roth contributions can be especially valuable if you expect to be in a higher tax bracket in retirement or if you would like to protect against the risk of higher tax rates.
- The "backdoor Roth IRA" strategy allows high-income families—who cannot otherwise add directly to a Roth IRA, due to income limits—to indirectly contribute to a Roth IRA.

When you are saving in an Individual Retirement Account (IRA) or 401(k), there are generally three types of contributions that you can make:

1. **Pre-tax** (also known as "tax-deferred" or "Traditional") contributions give you an immediate tax deduction equal to your contribution, and your investments will grow without incurring annual taxes on growth and income. When you withdraw these funds, you will pay an ordinary income tax on your contributions and any earnings that they have generated.
2. **Roth** (also known as "tax-exempt") contributions do not give you any tax deduction, but your investments grow without incurring annual taxes on growth and income, and you will not pay ordinary income taxes on your contributions or on any earnings that they generated when you make a qualified withdrawal.[1]
3. **After-tax** (also known as "non-deductible") contributions do not give you any tax deduction, but your investments grow without incurring annual taxes on growth and income. When you withdraw these funds, you will pay an ordinary income tax on any earnings that your contributions have generated, but not the contributions themselves.

After-tax contributions' tax benefits aren't as attractive as pre-tax or Roth contributions' tax benefits, but these contribution types can be used as a "backdoor" for getting funds into a Roth retirement account, even when you can't make a direct Roth contribution.

How to use the "backdoor Roth IRA" strategy

For the 2025 tax year, you can contribute up to $7,000 ($8,000 if you are age 50 or older) to your IRAs. If you are in a high-income family—as measured by your modified adjusted gross income (MAGI)—your ability to contribute directly to a Roth IRA may be limited.

For example, if you are a Single tax filer, your Roth contributions are reduced if your MAGI exceeds $150,000 and is fully phased out if you make more than $165,000. If you file taxes as a married couple (Married Filing Jointly), your Roth contributions will be limited if your income exceeds $236,000 and is fully phased out if you make more than $246,000. Full details can be found on page 3 of the [2025 Tax fact sheet](#).

Figure 1 - High-income families may have limited ability to directly contribute to a Roth IRA

Phaseout ranges based on 2025 modified adjusted gross income (MAGI), in $

Filing status	Deductibility phaseout for Traditional IRAs	Contribution phaseout for Roth IRAs
Married filing jointly (MFJ)	126,000 – 146,000	236,000 – 246,000
MFJ when only one spouse is covered by a qualified plan	236,000 – 246,000	Not applicable
Married filing separately (MFS)	0 – 10,000	0 – 10,000
MFS and you did not live with your spouse at any time during the year	79,000 – 89,000	150,000 – 165,000
Single or Head of Household	79,000 – 89,000	150,000 – 165,000

Source: IRS, UBS.

While high-income families are limited on their ability to make a Roth *contribution*, they are not limited on their ability to implement a Roth *conversion*, which involves moving funds from a Traditional IRA to a Roth IRA, paying ordinary income taxes on any pre-tax assets in the IRA. With this in mind, the goal of a backdoor Roth IRA strategy is to make an after-tax contribution to your Traditional IRA and then promptly convert this non-deductible balance into a Roth IRA.

Fortunately, because you've already paid taxes on your non-deductible contributions, that portion of your Roth conversion will not be subject to taxes. Unfortunately, if you have both pre-tax and after-tax dollars in your IRAs (this includes all of your IRAs—including rollover IRAs, SEP-IRAs, and SIMPLE IRAs—but not your spouse's IRAs), then a portion of your Roth conversion will be added to your taxable income for that year. This is known as the "pro rata" rule.

To mitigate the impact of the pro rata rule, we recommend that you consider the following:

- **Siphon off the pre-tax dollars.** If your 401(k) provider allows for IRA rollovers, you may be able to roll your pre-tax IRA dollars into your 401(k); after-tax IRA balances and Roth IRA balances are not eligible to be rolled to a 401(k). This allows you to potentially reduce the pro rata rule's impact on your planned Roth conversion. The pro rata rule applies based on your IRA balances as of 31 December of the prior year, so it's best to implement the IRA rollover in the year before your planned Roth conversion.
- **Convert immediately after your contribution.** Any earnings generated by your after-tax contributions will be subject to income taxation upon conversion or distribution. Therefore, if you implement your Roth conversion immediately after making the after-tax contribution, it will help you limit (or eliminate) the amount of earnings that would be subject to income taxes.

Who should consider a backdoor Roth IRA?

The backdoor Roth IRA strategy is most useful for high-income families, such as married couples with modified adjusted gross income exceeding $246,000 in 2025, who cannot otherwise make a Roth IRA contribution.

Backdoor Roth IRA conversions are most effective for those who have little to no pre-tax IRA assets—such as those who have already implemented a rollover into their 401(k), or have previously converted their pre-tax IRA assets to a Roth IRA—because this limits the impact of the pro rata rule.

[1] You cannot withdraw earnings from your Roth retirement accounts on a tax-free basis until at least five years after your first contribution to a Roth IRA account. The clock starts ticking on 1 January of the tax year when the first contribution was made. Failure to follow the five-year rule can result in paying income taxes and a 10% penalty on any earnings that are withdrawn. Please also note that if you withdraw funds from a retirement account before age 59 ½, the funds may be subject to a 10% tax for an early distribution. Each Roth conversion has a separate five-year holding period. If you withdraw converted funds prior to age 59½ (unless another exception applies, such as disability or death), you will generally owe a 10% early withdrawal penalty on the converted amounts (you will also owe taxes and a 10% penalty on any earnings withdrawn).

Appendix

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