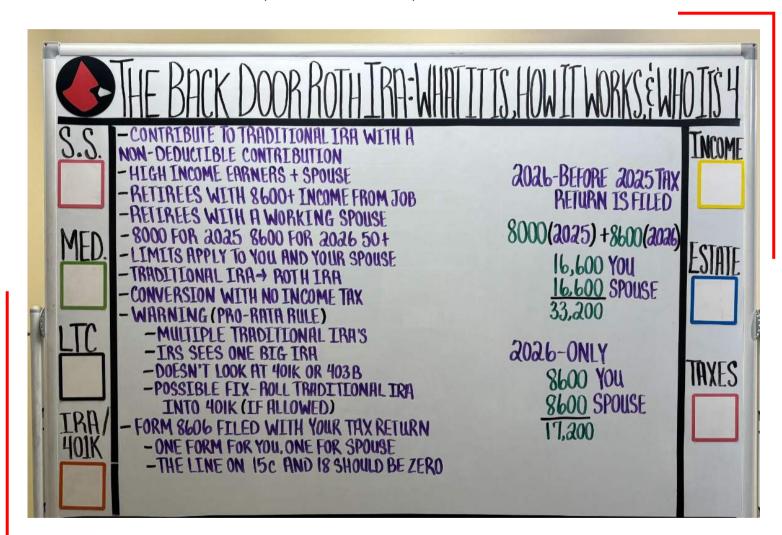


# The Back Door Roth IRA: What It Is, How It Works, and Who It's For

Hans and Tom discuss IRA's in the video titled "The Back Door Roth IRA: What It Is, How It Works, and Who It's For".



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Jan. 2026

#### Back Door Roth IRA

A simple overview for high-income earners

#### What Is a Back Door Roth IRA?

- Strategy for funding a Roth IRA when income exceeds IRS limits
  - Uses existing IRS rules
  - Not a special account or loophole

## Why Roth IRAs Are Attractive

- Tax-free growth
  - Tax-free retirement withdrawals
  - No required minimum distributions (RMDs)
  - Strong legacy-planning benefits

#### How the Back Door Roth Works

- Step 1: Non-deductible contribution to a Traditional IRA
  - Step 2: Convert the Traditional IRA to a Roth IRA
  - Only growth may be taxable if executed properly

#### Critical Rule: The Pro-Rata Rule

- IRS treats all IRAs as one combined account
  - Includes Traditional, Rollover, SEP, and SIMPLE
    IRAs
  - Large pre-tax balances may trigger taxes

#### Who Is a Good Candidate?

- High-income earners above Roth contribution limits
  - Little or no existing IRA balances
  - Looking for long-term tax diversification

## Tax Reporting Matters

- Form 8606 tracks after-tax IRA contributions
  - Errors can result in double taxation
  - CPA coordination is recommended

# **Key Takeaways**

- Simple concept, complex rules
  - Pro-rata rule is the biggest pitfall
  - Proper planning improves outcomes

## Important Disclosure

- Educational purposes only
  - Not tax or legal advice
  - Consult your financial and tax advisors