



CARDINAL ADVISORS

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".

THE BACK DOOR ROTH IRA: WHAT IT IS, HOW IT WORKS, & WHO IT'S FOR

| Category | Notes |
|---|--|
| S.S. <input type="checkbox"/> | <ul style="list-style-type: none">- CONTRIBUTE TO TRADITIONAL IRA WITH A NON-DEDUCTIBLE CONTRIBUTION- HIGH INCOME EARNERS + SPOUSE- RETIREES WITH 8600+ INCOME FROM JOB- RETIREES WITH A WORKING SPOUSE |
| MED. <input type="checkbox"/> | <ul style="list-style-type: none">- 8000 FOR 2025 8600 FOR 2026 50+- LIMITS APPLY TO YOU AND YOUR SPOUSE- TRADITIONAL IRA → ROTH IRA- CONVERSION WITH NO INCOME TAX- WARNING (PRO-RATA RULE) |
| LTC <input type="checkbox"/> | <ul style="list-style-type: none">- MULTIPLE TRADITIONAL IRA'S- IRS SEES ONE BIG IRA- DOESN'T LOOK AT 401K OR 403B- POSSIBLE FIX - ROLL TRADITIONAL IRA INTO 401K (IF ALLOWED) |
| IRA/401K <input type="checkbox"/> | <ul style="list-style-type: none">- FORM 8606 FILED WITH YOUR TAX RETURN- ONE FORM FOR YOU, ONE FOR SPOUSE- THE LINE ON 15c AND 18 SHOULD BE ZERO |
| INCOME <input type="checkbox"/> | <p>2026-BEFORE 2025 TAX RETURN IS FILED</p> <p>8000(2025) + 8600(2026)</p> <p>16,600 YOU</p> <p>16,600 SPOUSE</p> <p>33,200</p> |
| ESTATE <input type="checkbox"/> | |
| TAXES <input type="checkbox"/> | <p>2026-ONLY</p> <p>8600 YOU</p> <p>8600 SPOUSE</p> <p>17,200</p> |

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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