BULL RUN INVESTMENT MANAGEMENT
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CLIENT GUIDE

Backdoor Roth IRA

If your income is too high to contribute to a Roth IRA, you can still get money into one. You put after-tax money into a Traditional IRA, and we convert it to your Roth IRA. This guide covers who it works for, the steps at Schwab, the timing, and the tax forms that follow.

It works because Roth conversions have no income limit. Done cleanly, the conversion is tax-free, because the money going in was already taxed. After that, it follows the same rules as any other Roth IRA money.

Who it works for

- **Your income is over the Roth limit.** For 2026, a direct Roth contribution phases out between $153,000 and $168,000 of modified adjusted gross income for single filers, and between $242,000 and $252,000 for married couples filing jointly. Inside that range, you can put part in directly and the rest through the backdoor.
- **You have earned income.** You can contribute up to what you earned from work that year. If you file jointly, a spouse with little or no income can contribute based on the other spouse's earnings.
- **Each spouse can do one.** IRAs are individual accounts, so a married couple can put in $15,000 for 2026, or $17,200 if both are 50 or older.
- **A 401(k) at work is fine.** It does not affect the backdoor.
- **You have no pre-tax money in a Traditional, SEP or SIMPLE IRA.** If you do, part of the conversion is taxed. See the pro-rata rule below.

The steps at Schwab

Step	What happens	Who
1	Open a Traditional IRA and a Roth IRA in your name. There is no minimum.	We set them up
2	Send $7,500 to the Traditional IRA ($8,600 if you are 50 or older) by MoneyLink, check or wire. You have already paid tax on this money, so you do not deduct it.	You
3	Leave it in cash until it settles, usually a few business days.	You
4	We move it to your Roth IRA with no tax withheld. That is the conversion.	We do it
5	We invest it in your Roth IRA.	We do it
6	At tax time, your CPA files Form 8606 with the forms Schwab sends.	You and your CPA

Timing

- **Contributions:** you can make a 2026 contribution from January 1, 2026 through April 15, 2027. Tell Schwab which year it is for when you send it between January 1 and April 15. A tax-filing extension does not give you more time.
- **Conversions:** a conversion counts in the calendar year it happens. There is no April grace period for a conversion.
- **Example:** you make your 2026 contribution in February 2027, and we convert it that week. The contribution goes on your 2026 tax return and the conversion on your 2027 tax return. That is normal. Form 8606 connects the two.
- **No waiting period is required** between the contribution and the conversion. Interest the money earns before we convert it is taxed. That is usually a few dollars.

The pro-rata rule

This is the one thing that can make a backdoor Roth taxable. When you convert, the IRS looks at all of your Traditional, SEP and SIMPLE IRAs together: what is left in them on December 31 of the year you convert, plus what you converted. Whatever share of that total is pre-tax money, the same share of your conversion is taxed.

Hypothetical example	Amount
Pre-tax money in a rollover IRA on December 31	$67,500
After-tax contribution you convert	$7,500
Total the IRS counts	$75,000
After-tax share of the total	10%
Tax-free part of the $7,500 conversion	$750
Taxable part	**$6,750**

- **These do not count:** 401(k)s, 403(b)s and other workplace plans, inherited IRAs, and your spouse's IRAs.
- **One fix:** if your workplace plan accepts roll-ins, move the pre-tax IRA money into it before December 31 of the year you convert. Not every plan allows it, so talk to us first.

Planning a backdoor Roth every year?

Pre-tax money in a Traditional IRA makes every backdoor Roth partly taxable. So for clients who plan to do this year after year, we often recommend converting the whole Traditional IRA to a Roth. You pay tax on the pre-tax money once, in one year or spread over a few. After that, every backdoor Roth is tax-free.

See what converting would cost in our Roth conversion calculator

The tax forms

Form	From	When	What to know
1099-R	Schwab	Late January of the year after the conversion	Shows the money that left your Traditional IRA. It may show all of it as taxable. Form 8606 shows it is not.
5498	Schwab	May	Shows your contribution and the amount that went into your Roth IRA. Keep it with your records.
8606	You or your CPA	With your tax return	Shows the contribution was after-tax, so the conversion is not taxed. File it for every year you contribute or convert.

On Form 1040, the conversion appears on line 4a. The taxable amount on line 4b should be $0, or the few dollars of interest earned before the conversion.

Questions?

Want to do a backdoor Roth this year? Tell us, and we will open the accounts, handle the conversion and coordinate with your CPA. If you have IRAs at another firm, send us the latest statements so we can check for pre-tax money.

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Bull Run Investment Management, LLC is a registered investment adviser. This guide is general information, not tax or legal advice. Contribution limits and income limits are set by the IRS and change each year; the figures shown are for the 2026 tax year (IRS Notice 2025-67). The pro-rata example is hypothetical. Confirm your situation with your CPA before you contribute or convert.