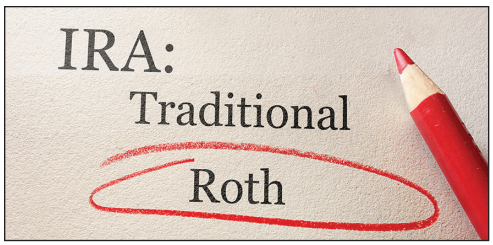


TAX YEAR 2026

Individual Retirement Accounts

Roth IRA Conversions

THE Reed GROUP

Roth IRA Phase Out

Generally, you can only contribute to a Roth IRA if you have taxable compensation and income less than the top of the phaseout range for your filing status (see chart below). If your income is greater than that threshold amount, you are prohibited from contributing directly to a Roth IRA.

Roth IRA Limits — 2026	
Individual Contribution Limits	
Under age 50	$7,500
Age 50 or older	$8,600
Roth IRA Phaseouts	
MFJ or QSS	$242,000 to $252,000
Single, HOH, or MFS (lived apart from spouse all year)	$153,000 to $168,000
MFS (lived with spouse at any time during the year)	$0 to $10,000

Conversion Rules

You can withdraw all or part of the assets from a traditional IRA and reinvest them in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly rolled over, the 10% additional tax on early distributions will not apply. However, a part or all of the distribution from your traditional IRA may be included in gross income and subjected to ordinary income tax.

There are no income limitations on converting a traditional IRA into a Roth IRA. The conversion is treated as a rollover, regardless of the conversion method used.

Conversion method. You can convert amounts from a traditional IRA to a Roth IRA in any of the following three ways.

1) ***Rollover.*** You can receive a distribution from a traditional IRA and roll it over (contribute it) to a Roth IRA within 60 days after the distribution.
2) ***Trustee-to-trustee transfer.*** You can direct the trustee of the traditional IRA to transfer an amount from the traditional IRA to the trustee of the Roth IRA.
3) ***Same trustee transfer.*** If the trustee of the traditional IRA also maintains the Roth IRA, you can direct the trustee to transfer an amount from the traditional IRA to the Roth IRA. Conversions made with the same trustee can be made by redesignating the traditional IRA as a Roth IRA, rather than opening a new account or issuing a new contract.

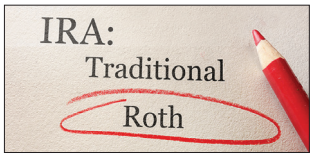
Conversion of deductible IRA. If you convert a traditional IRA that you received a tax deduction on in a previous year to a Roth IRA, you will owe taxes on the entire amount converted.

Example: *Jaslyn has a traditional IRA with a fair market value of $500,000. All of the contributions to the traditional IRA were deductible. If Jaslyn converts the entire $500,000 traditional IRA to a Roth IRA, she will owe ordinary income taxes on the full $500,000 amount, which is included in her income.*

Conversion of nondeductible IRA. If you make a nondeductible contribution to a traditional IRA, you can convert the entire amount tax-free. Only the earnings on the nondeductible IRA contributions are taxed.

See *Backdoor Roth IRA,* later.

Example: *Manny, age 43, is single and has a modified AGI of $250,000. He wishes to save money in a Roth IRA so he can make nontaxable withdrawals upon retirement. In 2026, he opens a traditional IRA with a $7,500 nondeductible contribution and a couple months later, converts it to a Roth IRA. He has no other traditional IRAs. At the time of Roth conversion, the account had increased in value by $250, which is the only taxable part of the conversion.*



Individual Retirement Accounts

Roth IRA Conversions

Conversion of part-deductible/nondeductible IRA. If you make a conversion to a Roth IRA that consists of deductible and nondeductible IRA contributions, you will owe tax on the proportion of your overall IRA balance that is considered after tax (nondeductible) as compared to before tax (deductible). You cannot choose to have the cost basis distributed first. Additionally, the values of all traditional IRAs are aggregated to determine the taxable portion of a distribution. Each distribution is partly nontaxable and partly taxable until your entire cost basis has been distributed.

Example: *Jay has $100,000 in his traditional IRA, $10,000 of which is after-tax. Therefore, 10% ($10,000 ÷ $100,000 = 10%) of his traditional IRA consists of after-tax money. If Jay wants to convert $20,000 of his traditional IRA to a Roth IRA, $2,000 ($20,000 × 10% = $2,000) would be tax free. The remaining $18,000 ($20,000 – $18,000 = $2,000) would be taxable.*

Example: *Gloria has $95,000 in her traditional IRA, all of which is pre-tax. If Gloria makes a $5,000 nondeductible (after-tax) contribution to a traditional IRA, her total IRA balance will be $100,000, $5,000 of which will be after-tax. Thus, only 5% ($5,000 ÷ $100,000 = 5%) of her Roth IRA conversion will be tax-free. If Gloria converts $5,000 from her traditional IRA to a Roth IRA after making her nondeductible contribution, just $250 would be tax free ($5,000 × 5%), while the remaining $4,750 ($5,000 – $250 = $4,750) would be taxable.*

Backdoor Roth IRA

Generally, if you are phased out from making a direct Roth IRA contribution, you are also phased out from making a deductible traditional IRA contribution.

If you are above the phaseout range and want to contribute to a Roth IRA, consider making a nondeductible contribution to a traditional IRA and then immediately converting it to a Roth IRA. This is commonly referred to as a "backdoor Roth IRA" because it allows a taxpayer to bypass the income limitation applicable to Roth IRA contributions. The example under *Conversion of a nondeductible IRA,* previous page, is similar to a backdoor IRA Roth contribution, except that, because with a backdoor Roth contribution the two transactions take place back-to-back, the traditional IRA will generally have no earnings to be taxed.

Note: Due to the distribution rules for traditional IRAs, this works best only if the taxpayer has no other traditional, SEP, or SIMPLE IRAs.

Required Minimum Distribution (RMD)

You cannot convert amounts that must be distributed from your traditional IRA for a particular year (including the calendar year in which you reach age 73) under the required distribution rules.

Periodic Distributions

If you started taking substantially equal period payments from a traditional IRA, you can convert the amount in the traditional IRA to a Roth IRA and then continue the periodic payments. The 10% additional tax on early distributions will not apply even if the distributions are not qualified distributions, as long as they are part of a series of substantially equal periodic payments.

Recharacterization

A recharacterization allows a taxpayer to treat a regular contribution made to a Roth or to a traditional IRA as having been made to the other type of IRA. A recharacterization does not include a conversion or any other rollover.

A conversion of a traditional IRA to a Roth IRA, and a rollover from any other eligible retirement plan to a Roth IRA, cannot be recharacterized back into a traditional IRA. Accordingly, a recharacterization cannot be used to unwind a Roth IRA conversion.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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