THE ACANTO GUIDE TO ROTH STRATEGY

Roth Strategy for High Earners

Seven legal doors into Roth money - and the tax traps behind them.

A plain-English decision guide to Roth 401(k)s, backdoor and mega-backdoor Roth strategies, conversions, spouses, side-business plans and inherited accounts.

PETER LUSK, JR., MBA, CMT

Founder & Chief Investment Officer | Acanto LLC

acantollc.com | Support@acantollc.com

START HERE

You may earn too much for a direct Roth IRA. You do not earn too much for Roth planning.

At $500,000 of income, the direct Roth IRA contribution is generally closed. Other routes may remain open, depending on your employer plan, existing IRA balances, marital status and tax picture.

THE QUESTION IS NOT: "CAN I HAVE A ROTH?"

The better question is: which Roth route is available, how much can it hold, and what tax cost or plan restriction comes with it?

SEVEN LEGAL DOORS INTO ROTH MONEY

01	**Direct Roth IRA**	Income-limited	2026 phaseout: $153,000-$168,000 single/HOH; $242,000-$252,000 married filing jointly.
02	**Roth 401(k) / 403(b)**	No income cap	Available only if the workplace plan offers it. Shares the employee deferral limit with pre-tax contributions.
03	**Backdoor Roth IRA**	IRA route	Make a nondeductible traditional IRA contribution, then convert. The pro-rata rule is the central trap.
04	**Mega-backdoor Roth**	Workplace-plan route	Voluntary after-tax contributions plus an in-plan Roth conversion or eligible rollover. The plan must permit both steps.
05	**Taxable Roth conversion**	No income cap	Move existing pre-tax retirement money to Roth and recognize taxable income in the conversion year.
06	**Spousal IRA route**	Two separate IRAs	A joint return and combined compensation may support two IRA contributions. Each spouse has a separate pro-rata calculation.
07	**Owner-only 401(k)**	Real business income	A genuine self-employed business may sponsor a plan. A second plan does not create a second employee-deferral limit.

Keep the words straight: a Roth contribution, a Roth conversion and an after-tax 401(k) contribution are three different transactions with different limits and tax rules.

A PRACTICAL CASE

How can someone earning $500,000 get money into Roth accounts?

Consider an employee age 45 with $500,000 of compensation, an employer 401(k), no pre-tax IRA balance and enough cash flow to save. The sequence below is illustrative, not a recommendation.

1 Use the workplace Roth door

If the plan offers Roth deferrals, direct some or all of the 2026 employee limit - $24,500 - to Roth 401(k). There is no income cap.

2 Use the IRA backdoor

Contribute $7,500 to a traditional IRA as nondeductible, document it on Form 8606, and convert. No prior Roth balance is required; the Roth IRA can be opened for the conversion.

3 Ask whether the plan has a mega door

The plan must accept voluntary after-tax contributions and allow an in-plan Roth conversion or an eligible in-service rollover to a Roth IRA.

4 Decide whether to convert old pre-tax money

A separate Roth conversion can move an existing IRA or eligible plan balance to Roth. The untaxed amount converted is generally ordinary income.

ILLUSTRATIVE 2026 CAPACITY

Roth 401(k) deferral	$24,500
Backdoor Roth IRA	$7,500
Potential voluntary after-tax 401(k)*	$32,500

*Assumes a $15,000 employer contribution: $72,000 overall limit - $24,500 deferral - $15,000 employer contribution = $32,500. Actual plan terms, compensation and testing can reduce capacity. No side hustle is required.

THE IRA ROUTE

Backdoor Roth: simple idea, technical execution

A backdoor Roth IRA is not a special account. It is a sequence: nondeductible traditional IRA contribution, then Roth conversion. High income blocks a direct Roth contribution, but it does not block a traditional IRA contribution or a conversion.

1

CONTRIBUTE

Put after-tax cash into a traditional IRA and treat the contribution as nondeductible.

2

DOCUMENT

File Form 8606 to establish and carry forward basis. Keep the tax records permanently.

3

CONVERT

Ask the custodian for a direct Roth conversion. Untaxed amounts and interim earnings are taxable.

THE PRO-RATA RULE: THE TRAP THAT CHANGES THE TAX BILL

The IRS does not let you isolate only the new after-tax dollars when you also own pre-tax traditional, SEP or SIMPLE IRAs. Form 8606 looks across those IRAs in your name and determines the tax-free percentage using year-end values. A spouse's IRAs do not enter your calculation.

A $200,000 IRA EXAMPLE

Existing pre-tax IRA	**$192,500**
New nondeductible contribution	**$7,500**
After-tax percentage	**3.75%**

If $7,500 is converted, only about $281 is tax-free and about $7,219 is taxable, assuming no other changes. The remaining basis stays on Form 8606.

BEFORE YOU USE THE BACKDOOR

- Inventory every traditional, SEP and SIMPLE IRA in your name.
- Ask whether an employer plan accepts incoming rollovers of pre-tax IRA money.
- Confirm that the contribution is eligible and coded as nondeductible.
- Coordinate the contribution, conversion and Form 8606 with the tax preparer.

THE WORKPLACE-PLAN ROUTE

Mega-backdoor Roth: the plan document decides

This strategy is different from the IRA backdoor. It uses voluntary after-tax 401(k) contributions above the regular employee deferral, followed by a Roth conversion inside the plan or an eligible rollover to a Roth IRA.

YOUR PLAN NEEDS BOTH HALVES

1 AFTER-TAX CONTRIBUTIONS

Not Roth deferrals. These are voluntary employee contributions made after tax and tracked separately by the plan.

+

2 A CONVERSION EXIT

The plan must allow an in-plan Roth conversion or a qualifying in-service distribution to a Roth IRA.

2026 CAPACITY FORMULA

$72,000
overall annual-additions limit

- employee deferrals
- employer contributions
- other annual additions

= potential voluntary after-tax capacity

THE FIVE QUESTIONS FOR HR OR THE PLAN ADMINISTRATOR

1. Does the plan accept voluntary after-tax employee contributions?
2. Does it allow automatic or frequent in-plan Roth conversions?
3. If not, are in-service rollovers to a Roth IRA permitted, and how often?
4. What employer contributions and testing limits reduce my available capacity?
5. How are after-tax earnings handled before conversion?

Execution matters: convert after-tax contributions frequently if the plan permits. Earnings that accumulate before conversion are generally pre-tax and may create taxable income when moved to Roth.

WHAT WORKS - AND WHAT DOES NOT

You do not need a side hustle. A real business can create additional planning options.

A Roth strategy should follow actual compensation, ownership and plan rules. It should never depend on a paper business or an account casually placed in someone else's name.

MYTH	**"I need a side job to open a Roth."**	No. A high earner can use a workplace Roth account, a backdoor Roth IRA or a taxable conversion without a side business.
MYTH	**"My wife can contribute because she earns less."**	Direct Roth eligibility for a joint return uses joint modified AGI. However, spouses have separate IRAs and separate pro-rata calculations.
REAL OPTION	**A spousal IRA contribution**	If a couple files jointly and has enough combined taxable compensation, a nonworking or lower-earning spouse may be able to fund an IRA in that spouse's own name.
REAL OPTION	**An owner-only 401(k)**	A genuine business with net self-employment income and no eligible common-law employees other than a spouse may support a one-participant 401(k).

THE SHARED-LIMIT RULE

The 2026 employee elective-deferral limit - $24,500 - is generally shared across your 401(k) and 403(b) plans. Opening an owner-only 401(k) does not create a second allowance. The age-50 catch-up is $8,000, or $11,250 at ages 60-63. For 2026, catch-up contributions generally must be Roth when prior-year wages from that plan sponsor exceeded $150,000 and the plan offers Roth. A real business may still make an employer contribution based on plan terms and compensation.

DO NOT MAXIMIZE BY REFLEX

A large pre-tax balance can become tomorrow's tax problem

Pre-tax contributions can be valuable at a high marginal rate. But repeatedly deferring tax without modeling the exit can create large required distributions, wider Medicare premiums, a surviving spouse's single-filer squeeze and compressed taxation for heirs.

PRE-TAX MAY WIN WHEN

- today's marginal rate is unusually high
- retirement income is expected to be lower
- deductions or charitable plans may offset future income
- current cash-flow relief is valuable

ROTH MAY WIN WHEN

- future rates or income may be higher
- the money has a long growth horizon
- reducing future RMDs matters
- heirs may otherwise face a 10-year tax squeeze

BRACKET FILLING: CONVERT TO A TARGET, NOT A ROUND NUMBER

ILLUSTRATIVE CONVERSION

$360,000
projected taxable income before conversion

$400,000
household-selected ceiling

$40,000
potential conversion

Illustration only. The target should reflect filing status, deductions, capital gains, credits, Medicare, state tax and the current year's law - not just the federal bracket table.

CONVERSION WINDOWS OFTEN OPEN WHEN INCOME FALLS

The strongest window is often after earned income drops but before Social Security, pensions and required minimum distributions fully stack. That window is personal; it may not exist, or it may appear earlier after a sabbatical, business loss or large deduction.

MODEL THE WHOLE RETURN

A Roth conversion can cost more than the tax bracket suggests

The untaxed amount converted is generally ordinary income in the conversion year. The decision is irreversible, so estimate the federal, state and benefit-related effects before the transaction is completed.

THE CONVERSION RIPPLE MAP

FEDERAL BRACKET

Conversion income can fill or cross brackets and phaseouts.

MEDICARE

Modified AGI can increase Part B and Part D premiums, generally using a two-year lookback.

CAPITAL GAINS

Higher ordinary income can move long-term gains into a higher rate band.

SOCIAL SECURITY

Additional income can increase the taxable portion of benefits.

ACA CREDITS

Before Medicare, higher household income can reduce or eliminate premium assistance.

STATE TAX

Residency now and later can materially change the conversion cost.

THE FIVE-YEAR RULES ARE NOT ONE RULE

QUALIFIED ROTH IRA EARNINGS

A five-tax-year clock generally begins with the first contribution to any Roth IRA, and a qualifying event such as reaching age 59 1/2 must also occur before earnings are qualified.

EACH CONVERSION

For someone under 59 1/2, each conversion has a separate five-tax-year clock that may affect the 10% additional tax if converted taxable amounts are withdrawn early. Exceptions may apply.

PAY THE TAX FROM OUTSIDE ASSETS WHEN PRACTICAL

Withholding from the converted amount leaves less money in Roth and may create an early-distribution problem before age 59 1/2. Coordinate estimated payments, liquidity and safe-harbor rules with the tax preparer.

THE FAMILY TAX DECISION

Pay tax now - or let your children pay it later?

A Roth conversion is not only a retirement-income decision. It can change what beneficiaries inherit, when tax is due and how much flexibility they have during the 10-year distribution window.

Issue	Inherited traditional IRA	Inherited Roth IRA
Income tax	Distributions are generally ordinary income	Qualified distributions are generally income-tax-free
10-year deadline	Most non-spouse beneficiaries must empty the account	Most non-spouse beneficiaries must empty the account
Years 1-9	Annual RMDs may apply if the owner died after the required beginning date	Generally no annual RMDs for a designated beneficiary
Best timing	Withdrawals can collide with peak earning years	Tax-free growth may continue until the year-10 deadline

THE WIDOW'S TAX PENALTY

After the first spouse dies, the survivor may have similar income and fewer deductions but file as a single taxpayer. That can compress brackets and increase Medicare premium exposure. Partial conversions while both spouses are alive may reduce this risk, but only if the current tax cost is justified.

BENEFICIARY DESIGN STILL MATTERS

Spouses, eligible designated beneficiaries, trusts, estates and charities can face different rules. Coordinate beneficiary forms with the estate plan. A trust named on the form does not automatically produce the intended tax or control result.

Not every conversion improves an inheritance. Compare the owner's tax rate today with the likely beneficiary rate, time horizon, charitable intent, state tax and the family's need for liquidity.

BRING THIS PAGE TO THE MEETING

Twelve questions before money moves

A sound Roth strategy coordinates the account rules with the tax return, employer plan, investment policy, estate plan and available cash.

1. Am I eligible for a direct Roth IRA contribution in 2026?
2. Does my workplace plan offer Roth deferrals, and what is the match formula?
3. Do I own any traditional, SEP or SIMPLE IRAs that trigger the pro-rata rule?
4. Will the employer plan accept an incoming rollover of pre-tax IRA money?
5. Does the plan allow voluntary after-tax contributions?
6. Can those after-tax dollars be converted in-plan or rolled to a Roth IRA while employed?
7. How much room remains under the $72,000 annual-additions limit?
8. Are my employee deferrals coordinated across every employer plan?
9. What federal bracket or other planning ceiling are we targeting?
10. What are the Medicare, ACA, capital-gain, Social Security and state-tax effects?
11. Can the conversion tax be paid from outside assets without weakening reserves?
12. How will the strategy affect the surviving spouse and non-spouse beneficiaries?

THE OUTPUT SHOULD BE A ONE-PAGE ANNUAL ROTH PLAN

For each account: contribution type, dollar amount, transaction date, conversion amount, tax estimate, Form 8606 responsibility, investment allocation, beneficiary and the person responsible for year-end verification.

FROM ACCOUNT CHOICE TO TAX STRATEGY

Roth is a tax-planning decision before it is an investment decision

The account label alone does not create a good result. The value comes from coordinating the contribution route, conversion timing, investment horizon, liquidity, future required distributions and the people who may inherit the account.

HOW ACANTO APPROACHES THE DECISION

We begin with the household's current tax structure, retirement accounts, employer-plan rules, expected income path and estate objectives. Then we compare the Roth routes that are actually available and build a multi-year sequence that can be reviewed annually.

The goal is not to pay tax early for its own sake. It is to decide deliberately who should pay the tax, at what rate and on what timetable.

PETER LUSK, JR., MBA, CMT

Founder & Chief Investment Officer
Acanto LLC

Schedule a Financial Clarity Review
Support@acantollc.com
(914) 714-0735
www.acantollc.com

PRINCIPAL 2026 REFERENCE POINTS

- IRS Notice 2025-67 and 2026 retirement-plan limits: $7,500 IRA limit; $24,500 employee deferral; $72,000 annual-additions limit.
- IRS Publications 590-A and 590-B; Form 8606 and instructions: IRA eligibility, conversions, basis, pro-rata calculations and inherited IRAs.
- IRS Notice 2014-54 and retirement-plan Roth guidance: after-tax plan rollovers and in-plan Roth conversions.
- CMS 2026 Medicare Parts B and D premium and income-related adjustment guidance.

Official sources: irs.gov/retirement-plans | irs.gov/publications/p590a | irs.gov/publications/p590b | cms.gov

READ BEFORE ACTING

Important disclosure

This guide is for educational purposes only and is not individualized investment, tax, legal or retirement-plan advice. It summarizes selected federal rules in effect for 2026 and does not describe every exception, transition rule, plan provision or state-law issue. Tax laws, dollar limits and administrative interpretations can change.

Roth IRA eligibility depends on modified adjusted gross income, filing status and compensation. Employer-plan features vary; a plan is not required to offer Roth deferrals, voluntary after-tax contributions, in-plan Roth rollovers or in-service distributions. Plan limits can also be affected by compensation, employer contributions, nondiscrimination testing and related-employer rules.

A Roth conversion is generally taxable to the extent it includes untaxed amounts and cannot be recharacterized. Conversions can affect tax brackets, deductions, credits, Medicare premiums, Social Security taxation, capital-gain rates and state tax. Form 8606 and the IRA pro-rata rule may apply. Withholding, estimated tax payments and early-distribution rules require separate review.

Inherited-account rules depend on the original owner's death date, required beginning date, beneficiary type, account type and trust terms. Coordinate beneficiary designations with qualified legal and tax professionals.

THE STANDARD FOR A GOOD ROTH DECISION

Know the route. Know the tax cost. Know the plan rules. Know who reports the transaction. Know how the decision changes the next ten years - not just this year's tax return.