

Roth 401(k)

Beginning January 1, 2006, a new type of savings plan became available. The Roth 401(k) is an account to which you can make contributions in excess of the normal Roth IRA contribution limits. Roth 401(k) plans blend many of the best features of a traditional 401(k) and Roth IRA, giving employees a unique option when it comes to planning for retirement.

How does a Roth 401(k) work?

A designated Roth account is a separate account under a section 401(k) plan to which designated Roth contributions are made. Designated Roth contributions are a type of contribution that can be accepted by new or existing 401(k) plans. If your employer's plan adopts this feature, you can designate some or all of your elective contributions as designated Roth contributions rather than traditional, pre-tax elective contributions.

Designated Roth contributions must be kept completely separate from previous and current 401(k) pre-tax elective contributions. Contributions to a Roth 401(k) are not excluded from income.

How much can I contribute?

The combined amount you can contribute to all designated Roth accounts and traditional pre-tax accounts in any one year is limited to \$18,500 for 2018 and \$19,000 for 2019. If you are age 50 or older, an additional catch-up contribution of \$6,000 is allowed for 2018 and 2019.

There are no limits on income when determining if designated Roth 401(k) contributions can be made. However, you must have a salary from which to make any 401(k) deferrals.

Can my employer make matching contributions?

Your employer can make matching contributions on designated Roth contributions. However, only your designated Roth contributions can be allocated to a designated Roth account. The matching contributions made on account of designated Roth contributions must be allocated to a pre-tax account, just as matching contributions on traditional pre-tax elective contributions are.

How do I elect to make Roth 401(k) contributions?

As with traditional 401(k) plans, your plan must specify when the elections are available. The rules regarding frequency of elections apply in the same manner to both pre-tax elective contributions and designated Roth contributions and must be specified under the plan. As an employee, you must have an effective opportunity to make (or change) an election to make designated Roth contributions at least once during each plan year.

A Roth election must be in place before any money can be placed in a designated Roth account. Once contributions are designated as Roth contributions, they cannot be changed to pre-tax elective contributions at a later date.

Distributions from a Roth 401(k)

The appeal of a Roth 401(k) is that qualified distributions made from designated Roth contributions are not included in income. This is especially favorable if you are in a high tax bracket at the time distributions are made.

What is a qualified distribution?

A qualified distribution is generally a distribution made after a five-taxable-year period that is either:

- Made on or after the date you reach age 59½;
- Made after your death; or
- Attributable to you being disabled.

The five-taxable-year period begins on the first day of your taxable year for which you first had designated Roth contributions made to your plan and ends when five consecutive taxable years have passed.

If you make a withdrawal of a designated Roth contribution before the end of the five-year period, the amount of the distribution that represents earnings will be included in your income. The amount of the distribution that represents your contribution remains tax-free.

Can I take distributions at any time?

The plan's restrictions on withdrawals that apply to pre-tax elective contributions also apply to designated Roth contributions. So if your plan permits distributions from your 401(k) on account of hardship, you may choose to receive a hardship

distribution from your designated Roth account. This distribution will consist of a pro-rata share of earnings and investment. The earnings will be included in your gross income unless you have had the designated Roth account for five years and are either disabled or over age 59½.

Minimum distribution rules

You are required to begin minimum distributions from your Roth 401(k) once you reach age 70½. However, if you leave your employer, you can roll your Roth 401(k) into a Roth IRA and avoid the minimum distribution rules.

Is a Roth 401(k) right for me?

Careful planning is required to determine if a Roth 401(k) is right for you. Whether sticking with a regular 401(k) or designating some contributions as Roth 401(k) contributions depends on how long the money stays in the account, how much it earns, and what your tax rates are when you put the money in and take it out.

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