



After-Tax 401(k) Contributions

“After-tax contributions” allow participants to defer up to the maximum \$56,000 allowable annual 401(k) contribution.

After-tax contributions are similar to Roth contributions in that both are made after income taxes have been paid. Two key differences:

- After-tax contributions are not limited to \$19,000. Instead, they are included in the overall (employee and employer) maximum of \$56,000 (\$62,000 with the age-50 catch-up contribution).
- Earnings on after-tax contributions are taxable when distributed; Roth earnings are tax-free.

Tax implications for each 401(k) contribution type are as follows:

| | PRE-TAX CONTRIBUTIONS | ROTH CONTRIBUTIONS | AFTER-TAX CONTRIBUTIONS | EMPLOYER CONTRIBUTIONS |
|---|--|--------------------|--|------------------------|
| Are contributions taxed when made? | No | Yes | Yes | No |
| Are contributions taxed when distributed? | Yes | No ¹ | No** | Yes |
| Are earnings taxed when distributed? | Yes | No ¹ | Yes** | Yes |
| What are the IRS annual limits? | \$19,000 for 2019 for employee pretax and Roth contributions | | \$56,000 for 2019, including employee pretax, Roth, after-tax AND employer contributions | |
| What is the catch-up? | An additional \$6,000 for 2019 | | | |

¹ A distribution from a Roth 401(k) is tax-free and penalty-free, provided the five-year aging requirement has been satisfied and one of the following conditions is met: age 59½, disability, or death.

**A partial distribution from a qualified plan must include a proportional share of the pretax and after-tax amounts in the account. Therefore, while the portion of your distribution associated with your after-tax contribution is not taxable, the portion of your distribution associated with any pretax contributions or earnings on pretax or after-tax contributions is taxable.

Vita recommends these best practices in the implementation of after-tax contributions:

- Advise participants to maximize their pre-tax or Roth limits before making after-tax contributions.
- Allow in-plan Roth conversions (whereby participants can convert after-tax contributions to Roth) only after testing is completed for each Plan Year. This is to ensure that there is no adverse effect on the Annual Contribution Percentage (“ACP”) test by the addition of after-tax contributions that would result in these conversions being reversed.