



Fourth Quarter 2023

Catch-up Contributions to 401(k) Plans Continue to Be Tax Deductible in 2024 and 2025

Good news for age 50-and-over participants in 401(k), 403(b) or governmental 457(b) plans who make catch-up contributions. Section 603 of the Secure 2.0 Act, enacted in December 2022, required employees who participate in and whose prior-year Social Security wages exceeded \$145,000, to make after-tax catch-up contributions to a Roth account starting in 2024.

This past August, the Internal Revenue Service granted an administrative transition period that extends until 2026 to the new requirement that any catch-up contributions made by higher income participants in 401(k) and similar retirement plans must be designated as after-tax Roth contributions. 401(k), 403(b) or governmental 457(b) plan participants can continue to make tax-deductible catch-up contributions up to \$7,500 to their retirement accounts in 2024 and 2025.

2023 catch-up contributions to a 401(k) can still be made on a tax-deductible basis through the April 15, 2024 deadline.

The administrative transition period, the IRS explained, “will help taxpayers transition smoothly to the new Roth catch-up requirement and is designed to facilitate an orderly transition for compliance with that requirement.”

The IRS notice also clarifies that the SECURE 2.0 Act “does not prohibit plans from permitting catch-up contributions, so plan participants who are age 50 and over can still make catch-up contributions after 2023.”

By making catch-up contributions with pre-tax money, an individual in a 35% bracket would receive a \$2,625 tax deduction for a \$7,500 catch-up contribution, while someone in the 22% bracket would deduct \$1,650.

That deduction will disappear in 2026, however, there are benefits to putting money in a Roth, where it can be withdrawn tax-free.

Brian R. Carruthers, CFP, CMT

BCA

BRIAN CARRUTHERS & ASSOCIATES

Your Conservative Advisory Firm Since 1990
301 Forest Avenue
Laguna Beach, California 92651-2115 USA

www.gobcafunds.com
brian@gobcafunds.com

