



## Roth 401(K) Deferrals Begins in 2006

By: Jeffrey K. Helder  
Attorney at Law  
and  
Judi Manning  
Paralegal



You can now save money another way in conjunction with your 401(K) profit sharing plan if your employer adopts a Roth 401(K) deferral amendment to its existing plan. This amendment is required prior to the end of the plan year after January 1, 2006.

A standard 401(K) deferral is considered a deferral before taxes causing your taxable income to be reduced. When the 401(K) deferrals are distributed, federal income taxes are required on the distribution.

In contrast, deferrals employee participants make to a Roth 401(K) are with after-tax dollars, but the distributions may be tax-free. For Roth funds to be distributed tax-free, they must remain in the plan for at least five (5) years from the date the first funds are contributed. Funds withdrawn prior to five (5) years become taxable and subject to penalty. Withdrawals from the Roth 401(K) funds must also begin after the participant reaches age 59 ½, dies, or becomes disabled.

A participant's maximum combined pre-tax 401(K) deferral and Roth 401(K) deferral may not exceed \$15,000 in 2006 and the 402(g) limit in effect for each calendar year thereafter. A participant that is over 50 years old may make an additional catch-up deferral of up to \$5,000. Employers cannot contribute any money to the Roth 401(K).

Unlike traditional Roth IRA's, there are no income limitations restricting who may make Roth 401(K) contributions.

Records for the deferrals and earnings for the 401(K) and Roth 401(K) must be kept separate.

The Roth contribution is also available on 403(b) plans.

The Roth 401(K) option was authorized as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) to be implemented in plan years after December 31, 2005. Currently the Roth 401(K) deferrals are available through December 31, 2010 before disappearing unless extended by legislative action.

**Cunningham Dalman, P.C.** is a full service law firm located in Douglas, Michigan, as well as in Holland, Michigan. Our attorneys possess skill and experience in estate planning matters as well as a broad spectrum of other areas of practice, and have proudly served the lakeshore community for over 100 years. Contact us at 269-857-7879.