Andrew Mason – Email Drips

Should You Make After-Tax 401(k) Contributions?

After-tax contributions are the least popular type of 401(k) contributions because they are made with already taxed money (similar to a Roth contribution0. The money grows tax-free in the account, but could be taxed upon withdrawal, like other 401(k) contributions. Essentially, the contribution is taxed twice, making it a usually unappealing way to contribution money.

Despite the disadvantages, there are a few reasons why you would want to make an after-tax contribution to your 401(k).

After-tax deferrals can go up to $53,000 or $59,000 on a dollar-for-dollar basis and include other contributions in 2015. If you max out your pre-tax contributions, you can still invest money in your 401(k) after taxes. The dollar-for-dollar contribution, as opposed to the profit-sharing contribution, can be higher and allows you to grow your savings even more.

Another benefit of after-tax contributions is the salary deferral limits that apply to other participant contributions do not apply in this case.

Recent IRS changes have made after-tax contributions more appealing to 401(k) plan participants. The changes allow for conversion to a Roth IRA, which was not an option prior to this year, and limited the benefit of making an after-tax 401(k) plan contribution.

Naturally, you need to have disposable income to be able to invest after-tax contributions, so if you are not comfortable there is no reason to worry about it. However, if you are comfortable and looking for more ways to grow your retirement savings, this can be a great option.

Want to know more? Let us know!

Self-Employed? You Can Still Cut Your 2014 Tax Bill!

There is little you can do to reduce your 2014 tax burden at this point – unless you are self-employed!

Self-employed individuals have the option of setting up a Simplified Employee Pension (SERP-IRA) any time before the **extended filing deadline of October 15th**. This means there is still time to make a tax-deductible contribution and get deferred growth.

It is also possible to contribute to a Solo 401(k), but the plan must have been established by the end of 2014, so it's too late to do much unless you have something already in place.

If you are self-employed and you haven't already, now is the time to set up a retirement plan. You can adopt a SEP IRA or Solo K, which allows pre-tax contributions of up to $53,000 for 2015. These enhanced retirement plans can offer a number of benefits and get you in better shape for the future.

Whether a SEP IRA or traditional IRA is better for an individual varies based on a number of factors, so it is best to work with a financial planner to help you decide. In most cases, it's a matter of how much you want to invest. Traditional IRAs cap contributions at $5,500 (or $6,500 for those 50 and over), while SEP IRA's allow contributions based on the lesser of 20% of net business income or $52,000 for 2014.

Want to know more? Give us a call with your self-employed tax questions!

Questions about the New IRA Rollover Rules? We Can Help!

The IRS's new rule regarding IRA rollovers has put a damper on some the saving strategies of many.

According to the new rule, taxpayers can withdraw IRA assets from a traditional or Roth IRA and redeposit the funds into a similar account within 60 days without taxes or penalties. However, a court ruling determined the taxpayer can only complete one rollover per year. The finding was based on a tax attorney's attempt to use the money within the 60 day grace period, but the court determined since the rule was intended to stop abuses such as this the attorney's actions were not within the spirit of the rule. Now, the strategy is no longer an option.

Direct trustee to trustee transfers remain limitless. For instance, if you rollover without ever touching the money, you can continue to do so without being subject to the rules. The rule only applies if you want your old custodian to send you the cash to use for 60 days before sending it to the new custodian.

The main issue that has changed is investors can't use short-term CDs to grow their savings. Now, if you use the CD-IRA rollover strategy twice in a year, one of the mature CDs will not be able to go back into your IRA.

If you fail to pay attention to the new rule, you could lose a large portion of your IRA to taxes, as well as the ability for future tax deferred investment growth inside of your IRA.

Want to know more or need assistance with your IRA? Give us a call!

Now Is the Time for Millennials to Begin Planning for Retirement

If you are part of the Millennial generation and you think it is too early to begin retirement planning, think again!

Here are several things you can do to prepare for the future and start taking action now so you have a solid retirement savings built up by the time you need it.

Planning for your retirement while paying for today takes some multitasking. Start by funding an emergency savings account. It should include about 10 to 20 percent of each paycheck. This ensures you have money stocked up if you lose your job.

It is also important to establish a monthly budget. Since most people from this generation don't use cash, it is important to keep track of what you are spending.

Another great preparation strategy is to maximize retirement account savings. If you are able to contribute pre-tax dollars to an IRA or 401(k), you should take advantage of that. This is especially true for those working for companies that offer matching plans. It's free money – max out the opportunity!

Finally, tackle debt. The earlier you pay off debt the less you pay and the sooner you can begin saving. Once debt is paid off, do what you can to avoid more debt. Once debt is paid off, you can increase your retirement savings plan contributions by 1 or 2 percent.

The important thing is to create a plan. We can help! Contact us today to learn more.