Designated Roth Accounts

under a 401(k) or 403(b) Plan

A designated Roth account is a separate account under a 401(k) or 403(b) plan to which designated Roth contributions are made, and for which separate accounting of contributions, gains, and losses is maintained.

Designated Roth contributions are elective contributions that, unlike pre-tax elective contributions, are currently includible in gross income. If a 401(k) or 403(b) plan is going to provide for designated Roth contributions, it must also offer pre-tax elective contributions.

Beginning in 2006, a 401(k) or 403(b) plan may permit an employee to irrevocably designate some or all of his or her elective contributions under the plan as designated Roth contributions.

(Note: DESIGNATED ROTH CONTRIBUTIONS DO NOT APPLY TO SIMPLE IRA PLANS OR TO SARSEP PLANS.)

The 401(k) or 403(b) plan must contain language that allows for these Roth contributions. The enclosed FAQs address the new Roth feature.

Retirement Plan Resources

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- Publication 575, *Pension and Annuity Income*
- Publication 590, *Individual Retirement Arrangements (IRAs)*
- Publication 4222, *401(k) Plans for Small Businesses*
- Publication 4224, *Retirement Plan Correction Programs*
- Publication 4333, *SEP Retirement Plans for Small Businesses*
- Publication 4334, *SIMPLE IRA Plans for Small Businesses*
- Publication 4531, *401(k) Plan Checklist*

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Employee Plans

Designated Roth Accounts

under a 401(k) or 403(b) Plan

Frequently Asked Questions (FAQs)

- contributions
- distributions
- feature comparisons
  among Roth 401(k), Roth IRA, and Traditional 401(k) accounts (in chart format)

The enclosed questions & answers are a small sampling of our more comprehensive FAQs on Designated Roth Accounts at www.irs.gov/ep.

Go to the Web — this is just a taste!

Contributions

Q. Can I make both pre-tax elective and designated Roth contributions in the same year?

A. Yes. You can make contributions to both a designated Roth account and a traditional, pre-tax account in the same year in any proportion you choose. However, the combined amount of all elective contributions made by an individual in any one year is limited by the 402(g) limit — $15,000 for 2006. An additional $5,000 in catch-up contributions, for persons 50 or older (and the 15 years-of-service catch-up available under 403(b) plans), can also be allocated between the traditional and designed Roth accounts.

Q. Can my employer make matching contributions on my designated Roth contributions? And, can the matching contributions be allocated to my designated Roth account?

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

Q. Does a new account need to be established under my 401(k) or 403(b) plan to receive my designated Roth contributions?

A. Yes. Designated Roth contributions must be kept completely separate from previous and current 401(k) or 403(b) pre-tax elective contributions. A separate account must be established for each participant making designated Roth contributions.

Distributions

Q. What is a qualified distribution from a designated Roth account?

A. A qualified distribution is generally a distribution made after a 5-taxable-year period of participation, and is either:

- made on or after the date the employee attains age 59½
- made on or after the employee's death, or
- attributable to the employee being disabled.

A qualified distribution from a designated Roth account is not includible in the employee's gross income.

Q. What happens if I take a distribution from my designated Roth account before the end of the 5-taxable-year period?

A. Under the proposed regulations, a nonqualified distribution is included in the distributee's gross income to the extent allocable to income on the contract (earnings) and excluded from gross income to the extent allocable to investment in the contract (basis). The amount of a distribution allocated to investment in the contract is determined by applying to the distribution the ratio of the investment in the contract to the designated Roth account balance.

Example: If a nonqualified distribution of $5,000 is made from an employee's designated Roth account when the account consists of $9,400 of designated Roth contributions and $600 of earnings, the distribution consists of $4,700 of designated Roth contributions (that are not includible in the employee's gross income) and $300 of earnings (that are includible in the employee's gross income).

Link to other FAQs on *Designated Roth Accounts* at ***www.irs.gov/ep.***

Feature Comparisons of Roth 401(k), Roth IRA, and Traditional 401(k) Retirement Accounts

FEATURE	DESIGNATED ROTH 401(k) ACCOUNT	ROTH IRA	TRADITIONAL, PRE-TAX 401(k) ACCOUNT
Contributions	Designated Roth employee elective contributions are made with *after-tax dollars*.	Roth IRA contributions are made with *after-tax dollars*.	Traditional, pre-tax employee elective contributions are made with *before-tax dollars*.
Income Limits	No income limitation to participate.	Income limits: • Married $160,000 • Single $110,000 (modified AGI).	Same as designated Roth 401(k) account. No income limitation to participate.
Maximum Elective Contributions	Combined* employee elective contributions limited to: • $15,000 in 2006. ($20,000 for employees 50 or over).	Contribution limited to: $4,000 in 2006. ($5,000 for employees 50 or over.)	Same combined* limit as designated Roth 401(k) account.
Taxation of Withdrawals	Withdrawals of contributions and earnings are not taxed provided they are a qualified distribution–the account is held for at least 5 years and made: • because of disability • after death, or • after attainment of age 59½.	Same as designated Roth 401(k) account; and can have a qualified distribution for a first-time home purchase.	Withdrawals of contributions and earnings *are* subject to federal and most state income taxes.
Required Distributions	Distributions must begin no later than age 70½, unless still working and not a 5% owner.	No requirement to start taking distributions while owner is alive.	Same as designated Roth 401(k) account.

* This limitation is by individual, rather than by plan. Although permissible to split the annual employee elective contribution between designated Roth contributions and traditional pre-tax contributions, the combination cannot exceed the deferral limit – $15,000. ($20,000 if age 50 or over.)