Voluntary After-Tax Contributions

Participant contributions funded to a 401(k) plan on an after-tax basis beyond elective deferrals. Similar to Roth 401(k) contributions, except the earnings are taxed upon distribution. Voluntary After-Tax Contributions are normally contributed after the participant has already exceed their annual elective deferral contribution limit. Voluntary After-Tax Contributions are subject to the ACP non-discrimination test.

	Pre-tax 401(k)	Roth 401(k)	Voluntary After- Tax
IRS Limits	$23,000 combined limit in 2024 ($30,500 if age 50+)		Up to $69,000* in 2024 for *total* contributions
Company Match Eligible	**Yes**	**Yes**	**No**
Taxation at Contribution	**No** Contributions deducted before taxes	**Yes** Contributions deducted after taxes	**Yes** Contributions deducted after taxes
Taxation at Distribution	**Yes** Contributions and Earnings are taxed on distribution at normal income tax rate	**NO** Contributions and earnings are tax-free on distribution**	**Partially Taxed** Contributions are tax free on distribution; earnings are taxed at normal income tax rate

*Includes pre-tax, after-tax, Roth, company match, and non-elective contributions based on years of service; limit is adjusted for age 50+
**A distribution from a Roth 401(k) is federally 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.

ACR# 6070712 11/23

Non-Discrimination Testing: ACP (Actual Contribution Percentage Test)

Voluntary After-Tax Contributions are included in the ACP Test. The ACP Test compares the average contribution rate for the HCE group vs the Non-HCE group. The restrictions of the ACP test are that the HCE Group ACP rate cannot be more than the lesser of two times or 2% plus the NHCE Group ACP rate.

HCE ACP Calculation

Deferral & Match Only Example
$13,200 / $345,000 = 4%

With Voluntary After-Tax
$13,200+$30,300 = $43,500
$43,500 / $345,000 = 12.6%

HCE ACP Calculation	Compensation	Deferral	Match	Voluntary After-Tax	Total Annual Addition	ACP Rate
Deferral & Match Only	$345,000	$23,000	$13,200		$35,700	4.00%
With Voluntary After-Tax	$345,000	$23,000	$13,200	$30,300	$66,000	12.6%

ACP Test Results

Assumptions: 1 Eligible HCE & Average NHCE Group ACP Rate is 4%

This test example fails the ACP test and would require a refund of Voluntary After-Tax Contributions to the HCE
12.6% - 6.0% = 6.6% excess contribution percentage
6.6% x $345,000 = $22,770 refund to HCE

Sample NHCE ACP Rate	4%
Max HCE ACP Rate	6%
Actual HCE ACP Rate	12.6%
Potential Refund	$22,770

Voluntary After-Tax Contributions: Considerations

1) Safe Harbor 401(k) Plans: Even though a safe harbor plan might be designed to satisfy the ACP test safe harbor, voluntary after-tax contributions must still be ACP tested.

2) Top Heavy Testing: Voluntary after-tax contribution accounts are included in top heavy testing. If a plan is top heavy (meaning more than 60% of it's assets are held by key employees, generally owners & officers) then the plan must abide by minimum contribution and vesting requirements.

3) Rollovers to ROTH IRA: Rollovers to ROTH IRAs of voluntary after-tax accounts are allowed depending on plan provision and meeting IRS requirements. These are sometimes called "Mega Back Door" Roth IRA contribution/rollovers.

4) Adding a voluntary after-tax contribution provision could mean significant savings and future tax advantages for participants. If the plan allows for in-service withdrawals or in-plan Roth rollovers, employees could then choose to annually distribute/rollover the after-tax contributions to a Roth account, thus sheltering any earnings on the contributions from further taxation, instead of letting the earnings continue to grow inside the account to be subject to taxation upon withdrawal.

5) Due to the ACP testing of the voluntary after-tax contributions, there must be good participation of the non highly compensated employee group, in the voluntary after-tax component of the plan. Usually, it's the HCE group that has the desire and ability to make the larger voluntary after-tax contributions to the plan.