

Tax Education:

Pre-tax vs. Roth Explained

Presented by:

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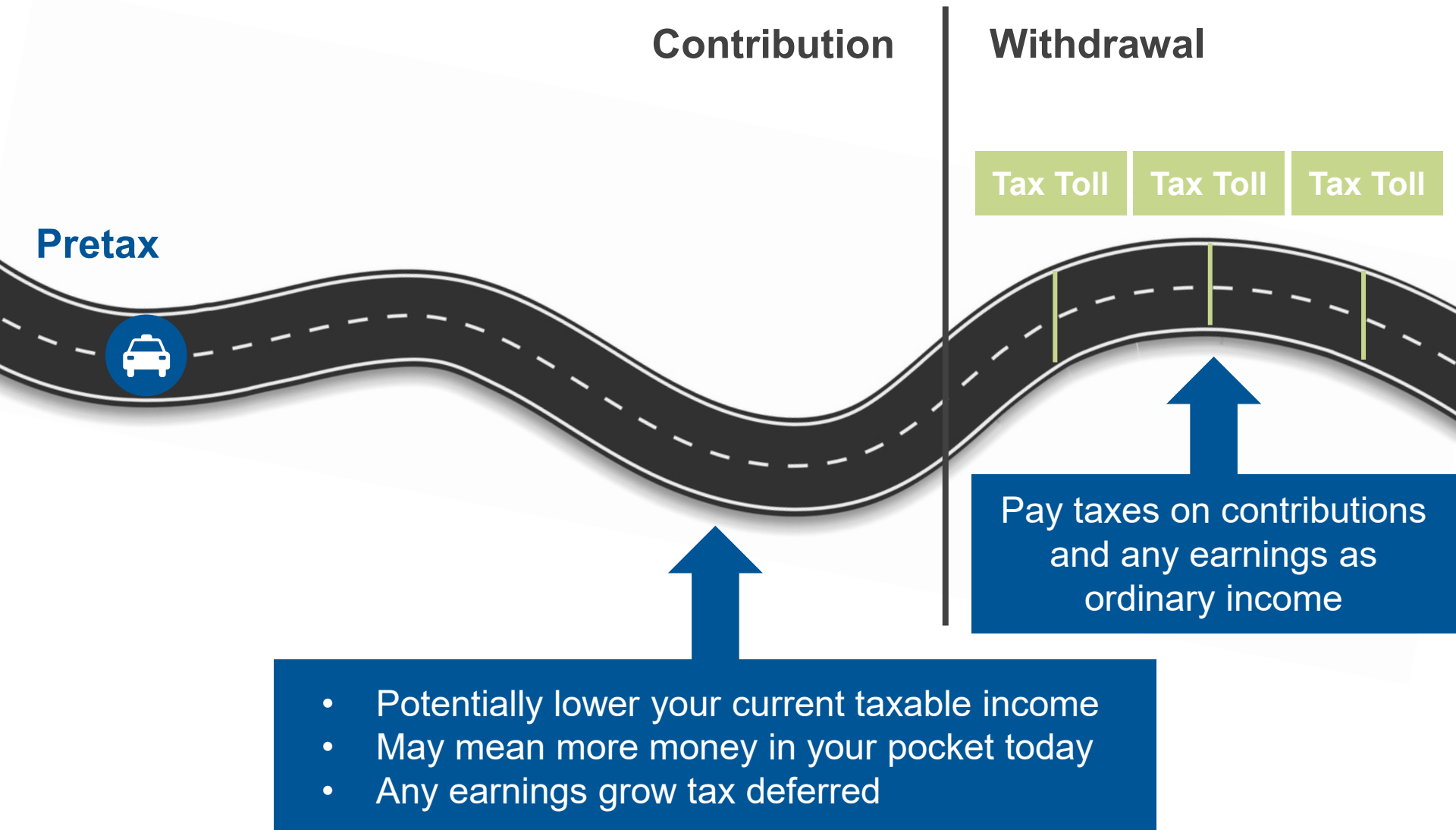
Disclaimer

I am not a CPA or a tax advisor. Please consult your own tax advisor when considering the following material.

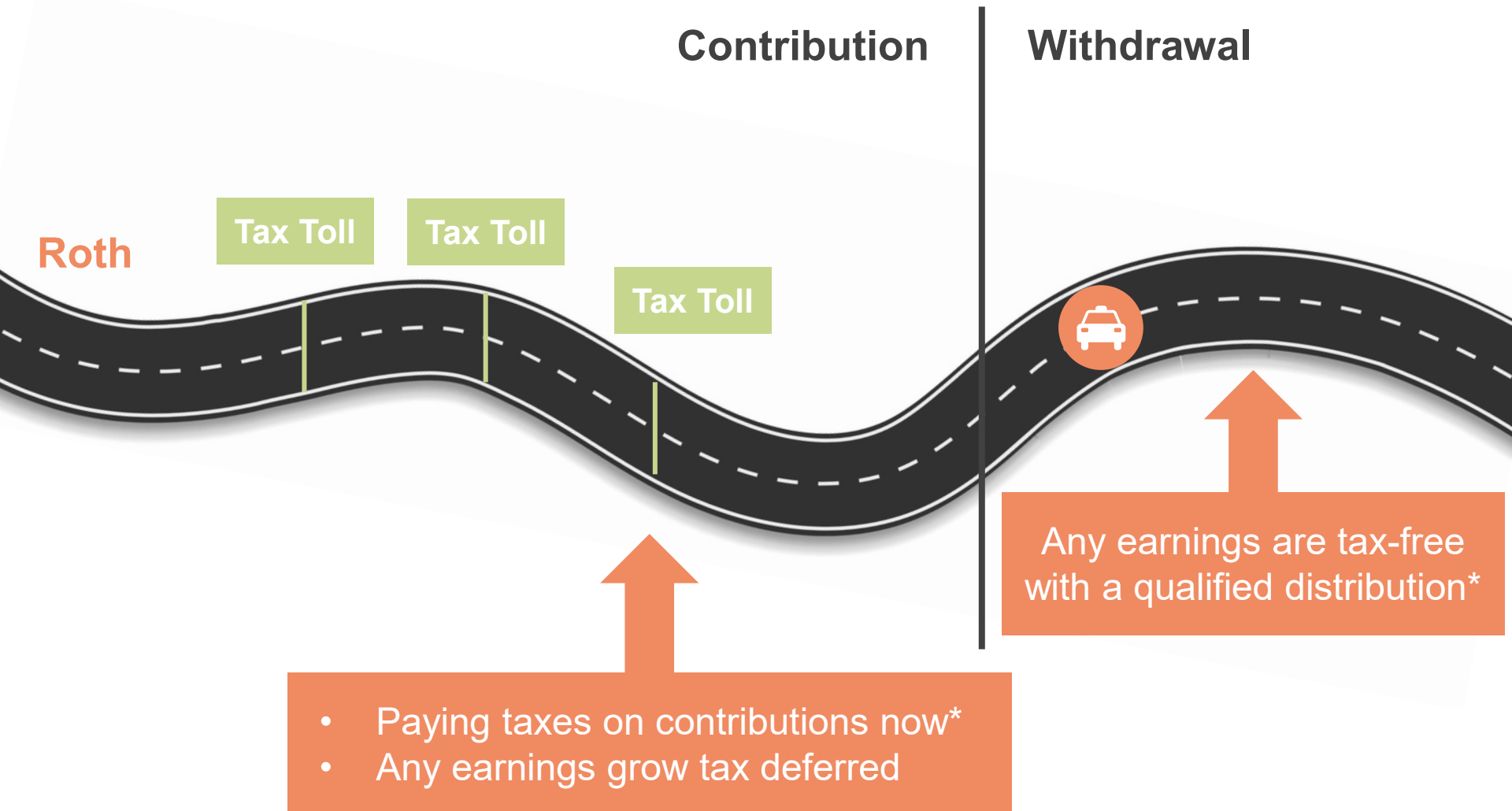
Everyone's situation is unique and nuanced. What may be applicable to some is not applicable to others.

Pre-tax vs Roth Explained

Pre-tax (aka Traditional)



Roth



Pre-tax vs Roth 401k

Traditional Pre-tax

Roth

Contributions	Pre-tax	After-tax
Distributions	Taxed upon withdrawal	"Qualified" = Tax free
Investment Earnings	Tax deferred	Tax free
Income Limits	N/A	
Contribution Limits	\$23,500 Age 50+: \$31,000 Age 60 – 63: \$34,750	

¹ A participant must satisfy the 5-year holding period and either attain age 59½, die or become disabled in order to be eligible to receive a tax-free, qualified Roth distribution.

² Ordinary income taxes due upon withdrawal. Withdrawals before the age of 59½ may be subject to an early distribution penalty of 10%.

Pre-tax vs Roth IRA

Traditional Pre-tax

Roth

Contributions	Pre-tax	After-tax
Distributions	Taxed upon withdrawal	"Qualified" = Tax free
Investment Earnings	Tax deferred	Tax free
Income Limits	<u>Participant in Employer Plan:</u> \$123 - \$143k (MFJ) \$77k - \$87k (Single) <u>Nonparticipant married to participant:</u> \$230k – \$240k	<u>Participant in Employer Plan:</u> \$230k – 240k(MFJ) \$146k - \$161k (Single)
Contribution Limits	\$7,000 Age 50+: \$8,000	

¹ An individual must satisfy the 5-year holding period and either attain age 59½, die or become disabled in order to be eligible to receive a tax-free, qualified Roth distribution.

² Ordinary income taxes due upon withdrawal. Withdrawals before the age of 59½ may be subject to an early distribution penalty of 10%.

Understanding US Tax Code

US Tax Code

Generating income will likely result in a tax return for the following entities:



Federal government



State government



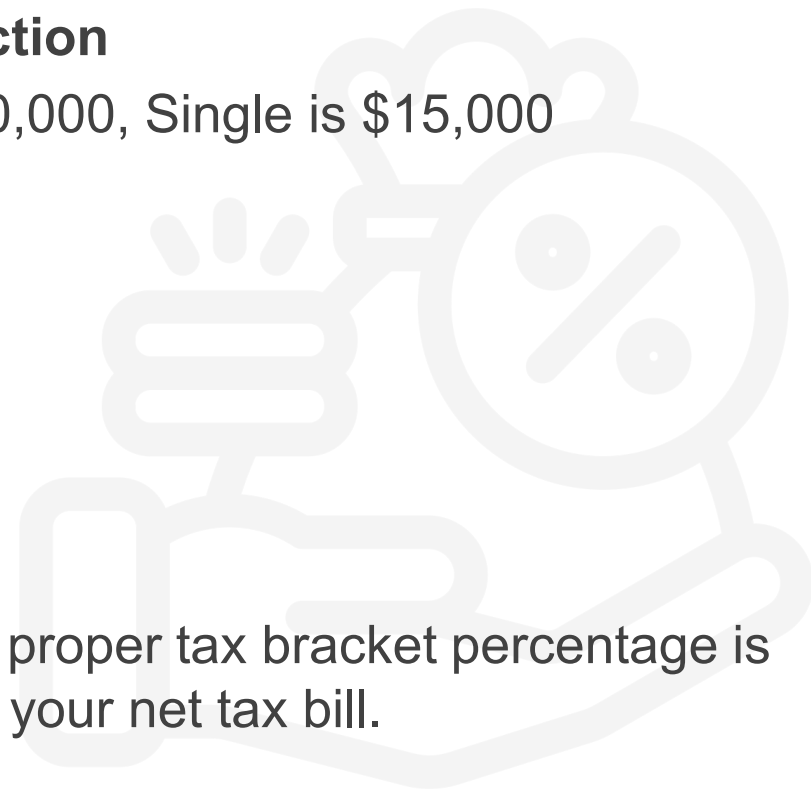
Local government

- Each person is responsible for filing their own tax return
- Understanding the system gives you potential to reduce your tax bill

Calculating Taxable Income

- 1) **Add up all sources of income:** wages, salary, tips, interest from investments, etc.
- 2) **Subtract “above the line” adjustments** such as traditional 401k or IRA contributions, student loan interest, etc.
- 3) **Subtract itemized or standard deduction**
 - 2025 standard deduction: MFJ is \$30,000, Single is \$15,000
 - Itemized deductions may include:
 - Mortgage interest
 - State and local taxes
 - Charitable donations
 - Educational expenses
 - Medical expenses

Once taxable income is calculated and the proper tax bracket percentage is applied, you may apply tax credits to lower your net tax bill.



2024 Federal Income Tax Brackets- Single Filers

Tax Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$11,925	10% of taxable income
12%	\$11,925 to \$48,475	\$1,192.50 plus 12% of the amount over \$11,925
22%	\$48,475 to \$103,350	\$5,578.50 plus 22% of the amount over \$48,475
24%	\$103,350 to 197,300	\$17,651 plus 24% of the amount over \$103,350
32%	\$197,300 to 250,525	\$40,199 plus 32% of the amount over \$197,300
35%	\$250,525 to \$626,350	\$57,231 plus 35% of the amount over \$250,525
37%	\$626,350 or more	\$188,769.75 plus 37% of the amount over \$626,350

2024 Federal Income Tax Brackets- Married Filing Joint

Tax Rate	Taxable Income Bracket	Taxes Owed
10%	\$0 to \$23,850	10% of taxable income
12%	\$23,850 to \$96,950	\$2,385 plus 12% of the amount over \$23,850
22%	\$96,950 to \$206,700	\$11,157 plus 22% of the amount over \$96,950
24%	\$206,700 to \$394,600	\$35,302 plus 24% of the amount over \$206,700
32%	\$394,600 to \$501,050	\$80,398 plus 32% of the amount over \$394,600
35%	\$501,050 to \$751,600	\$114,462 plus 35% of the amount over \$501,050
37%	\$751,600 or more	\$202,154.50 plus 37% of the amount over \$751,600

Example for a Married Couple Filing Jointly



Income:

Salary - \$150,000



Adjustments:

Traditional 401k contribution - \$10,000



Standard Deduction: \$30,000



Number of Children: 2

Apples to Apples Comparison

Impact to Take Home Pay

	Pre-tax
Salary	\$ 100,000
Your Contribution	\$ 10,000
Taxable Income	\$ 90,000
Taxes Due (20% rate)	\$ 18,000
Take Home Pay	\$ 72,000

Apples to Apples Comparison

Tax Rate	20%
Annual Rate of Return	10%
Annual Contribution	\$10,000

	Year 1	Year 2	Year 3	Year 4	Year 5	Tax Bill	Net Amount
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Roth	\$ 10,000	\$ 21,000	\$ 33,100	\$ 46,410	\$ 61,051	\$ 0	\$ 61,051
Total Tax Paid	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000		
Total							\$ 61,051

Strategies

Roth Conversions

You are allowed to convert pre-tax monies into Roth monies

Most IRA custodians allow this, few 401k plans allow this

*The amount converted will count towards taxable income

Back Door Roth IRA Contributions

Open a Traditional IRA

Ensure there is a zero balance

Fund the traditional IRA but do not take the tax deduction

Convert the amount into your Roth IRA

*If your Traditional IRA or any Traditional IRA that you own has a balance greater than \$0, it may cause some of your money to get taxed twice

Mega Back Door Roth IRA Contributions

Do the Back Door Contribution into your IRA:

- \$7,000 under the age of 50
- \$8,000 if 50 or older

Contribute the full 401k amount into Roth

- \$23,500 under the age of 50
- \$31,000 age 50 or older
- \$34,750 ages 60-63

Mega Back Door Roth IRA Contributions

Fund the after-tax portion (if plan allows) up to limit and do an in-plan conversion to Roth

- \$70,000 total under the age of 50
- \$77,500 total age 50 or older
- \$81,750 total ages 60-63
- Assuming no employer match, this results in \$46,500 available

Total contribution to Roth:

- \$77,000 under the age of 50
- \$85,500 age 50 or older
- \$89,750 ages 60-63

10% to 12% bracket

Roth 401k or Roth IRA contributions

Consider Roth conversions*

*Roth conversions can potentially cause Medicare premiums to increase if over the age of 65.

22% or 24% Bracket

Roth and/or Pre-tax 401k contributions

Roth IRA or back door Roth IRA contributions

Roth conversions (potentially)*

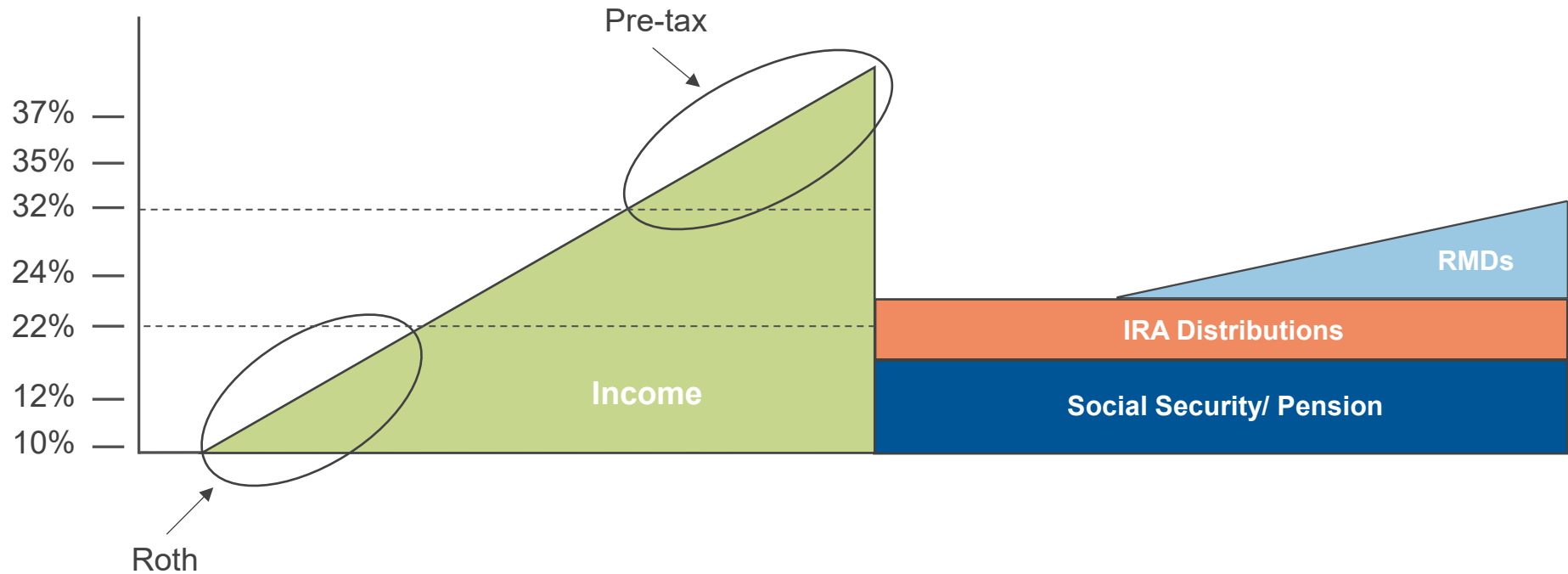
* Roth conversions can potentially cause Medicare premiums to increase if over the age of 65.

32% bracket or higher

Pre-tax 401k contributions

Back-door Roth contributions

Hypothetical Example

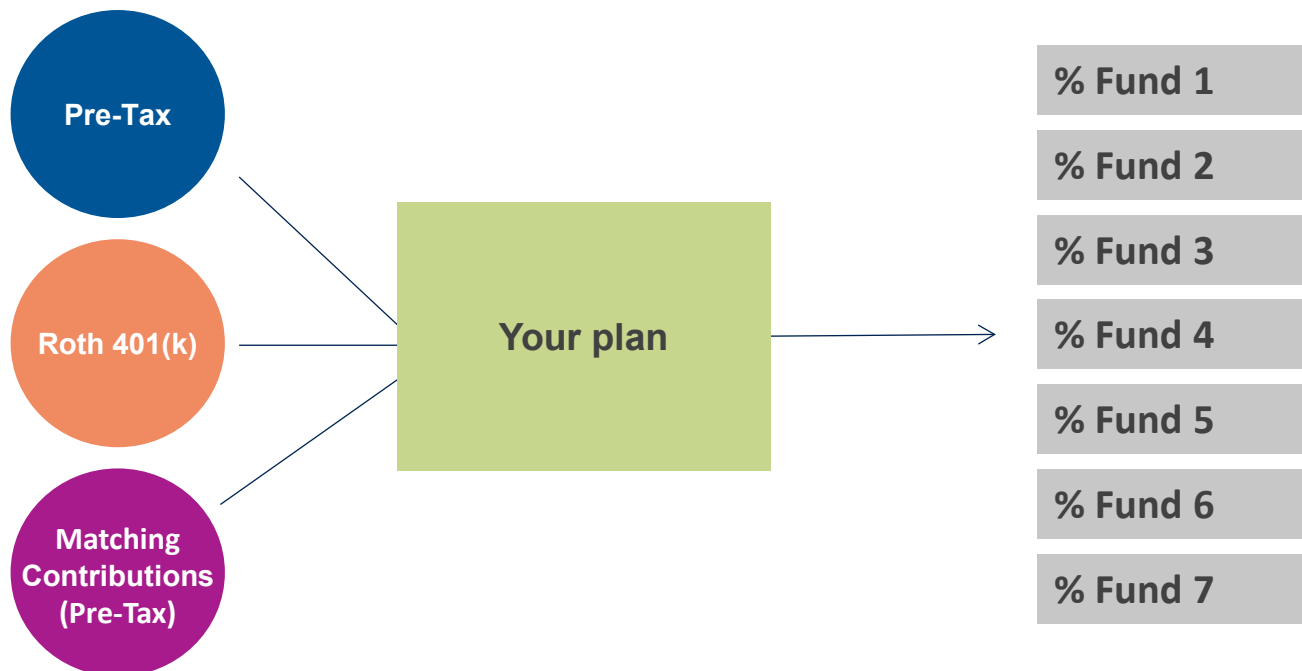


Miscellaneous Items

Investments in 401k Plans

All sources of money are invested based on investment elections you have on file.

Some plans may allow you to separate how each source is invested



Roth IRA: The 5-year Rule

For Roth monies to be distributed tax free, the account (whether 401k or IRA) must satisfy a 5-year holding period

For this reason, individuals saving in a 401k plan may consider opening a Roth IRA as well

An individual must also attain age 59.5, die, or become disabled

Other Tax Savings Strategies

HSA contributions

Cash Balance Plan

Tax-efficient non-qualified investments

ETFs

Municipal bond funds

Tax-loss harvesting

529 college plans

Tax credits



Questions?



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April 29

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May 22

Investing in Stocks:
Understanding
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