

**"Outstanding leaders go out of their way to boost the self-esteem of their personnel. If people believe in themselves, it's amazing what they can accomplish."**

*-- Sam Walton, Founder of Wal-Mart and Sam's Club*

Tax Tip – April 26, 2017

Retirement

Part 3 of 3

myRAs

The myRA is a risk-free Roth IRA backed by the U.S. Treasury so it won’t decline in value. It is designed for wage earners without access to retirement plans at work. Contributions are made either via direct deposit each pay period, via direct deposits from a bank account, or with tax refunds. Contributions can be made for 30 years or until the account balance reaches $15,000 at which point the account must be rolled into a private-sector Roth IRA. The rules for myRAs are the same as those for regular Roth IRAs.

401(k) and Roth 401(k) Plans

401(k) plans are excellent tax-saving vehicles, especially if your employer matches your contributions because the matches are not income to you. No unrealized losses, even on after-tax contributions, are deductible. Know the rules of your 401(k). Many who leave their jobs take a cash distribution from their 401(k)s rather than rolling the funds over. This can be a serious mistake. When leaving an employer it’s usually best to roll the 401(k) into a new employer’s plan or roll it into your own IRA.

If you roll over a lump-sum distribution to an IRA within 60 days, tax is deferred; if you do not, federal, state and local taxes are due on the entire amount withdrawn, and possibly a 10% early-withdrawal penalty. There may be an exception to the 60-day rule in cases of hardship.

The Roth 401(k) combines the features of traditional 401(k)s and Roth IRAs. There’s no up-front deduction for the contributions (the limits are the same as for regular 401(k)s and include catch-ups) but withdrawals are tax-free after age 59½. Contributions to Roth 401(k)s are after-tax, while earnings and withdrawals will be tax free. If the earnings are large or tax rates at the withdrawal date are high, the tax benefit will be invaluable. The contribution limits apply to your 401(k)s as a whole but you can divide your contribution between the two types in any year.

Simplified Employee Pension Plans

(SEPs) and Simples

The deferral limits on SEPs and SIMPLEs are higher than on IRAs. SEPs let employers make deductible contributions to the IRAs of employees and avoid much paperwork. All eligible employees must be covered. Businesses with no more than 100 employees can have a SIMPLE plan, to which an employee can contribute this year up to $12,500 of pre-tax wages. SEPs are easily converted to Roths, but there are restrictions on conversions of SIMPLEs.

If you have any questions regarding this information, please feel free to contact our office.

P.S. Please forward this to your friends or colleagues that you'd like to introduce our firm to. Or send us their email address and we'll ask for their permission to forward with your compliments.

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