CPA
Practice Advisor

the ability of older Americans to build up their retirement funds on a pre-tax basis.

Ken Berry, JD • Dec. 03, 2017

An amendment to the Senate version of the sweeping new tax reform bill hinders the ability of older Americans to build up their retirement funds on a pre-tax basis.

Generally, both the House and Senate versions of the massive tax reform bill leave retirement plan benefits untouched. But on November 13, Senator Orrin Hatch (R-UT), Chairman of the Senate Finance Committee (SFC), proposed a change that would prohibit pre-tax "catch-up contributions" to 401(k) plans, although an alternative would be allowed. Currently, a worker can contribute up to $6,000 in

The proposed amendment was roundly criticized in some quarters. The Financial Planning Association (FPA), the country's largest professional membership association of certified financial planners (CFPs) promptly issued a press release expressing its opposition.

Part of the FPA's statement read, "It is disheartening to see the attempt by Senator Orrin Hatch (R-Utah) to eliminate the ability of older Americans to make pre-tax contributions to defined contribution plans. These critical retirement plans make it possible for millions of Americans to save for their eventual transition out of the workforce and into retirement. Eliminating the contributions on a pre-tax basis for those savers age 50 and older will greatly hinder their ability to save."

Under Hatch's amendment, however, plan participants age 50 or older would be able to contribute up to $9,000 more to a Roth account. Unlike regular 401(k) deferrals, Roth contributions are taxable up-front, but can provide tax-free payouts in the future. The $9,000 amount of catch-up contributions would be permitted on top of the regular 401(k) deferral.

This provision could be beneficial to retirement-savers in a low tax bracket who expect to be in a higher tax bracket in retirement. However, for some older employees who are at or near the high earning point of their career, the change may be detrimental.

On a separate note, the Senate version of the bill would also prohibit catch-up contributions if the employee earned wages of $500,000 or more in the prior year.

Senator Hatch proposed another provision that could be damaging to some taxpayers. Under current law, you can recharacterize a conversion from a traditional IRA to a Roth IRA if it suits your purposes. The deadline is the tax return deadline for the year of the conversion. For instance, if the value of the assets plummets after the conversion, you can “undo” it and avoid the tax on the higher value. Hatch’s