



## Roth Catch Up Rule

*\*Based on how the rule was written, it appears to apply only to those with FICA earnings above the threshold and would not affect self-employed individuals.*

Those who were previously maxing out their plan using pre-tax contributions are the most impacted. Because the \$8,000 catch-up contribution for 2026 can no longer be made pre-tax, taxable income will increase. For someone in the 24 percent marginal tax bracket, this could result in approximately \$1,920 in additional federal taxes, assuming no other changes. Overall, this shift is expected to increase the tax liability of many high earners, regardless of how they adjust their contribution strategy.

### **Roth vs. Taxable**

Now that the rule is in force, the most common question is what high earners should do. Should they continue making catch-up contributions as Roth, or stop making catch-up contributions altogether and instead direct those dollars to a taxable brokerage account?

First, consider the options from a current-year tax perspective. In both scenarios, contributions are made with after-tax dollars or otherwise included in taxable income. This means neither approach would change the individual's current tax liability.

Next, compare the potential long-term benefits, starting with Roth catch up contributions. Assuming the contribution limit remains the same, contributing \$8,000 per year for five years results in \$40,000 of total Roth contributions. If this grows at 5 percent over 10 years, the balance will be approximately \$81,178. Because the funds are held in a Roth account, the entire balance could be withdrawn tax-free through a qualified distribution.

If the same \$8,000 annual contributions were instead directed to a taxable brokerage account over the same time frame, the account would have a \$40,000 cost basis. Assuming the same 5



percent growth rate, and ignoring taxes for simplicity, the account would also grow to approximately \$81,178. However, the \$41,178 of investment growth would be subject to capital gains taxes when the investments are sold. At a long-term capital gains rate of 15 percent, taxes on that growth would be roughly \$6,176. If taxes were paid from this account, the usable account balance would be \$75,000.

## Planning Considerations

Overall, the initial income tax impact occurs regardless of which option the high earner chooses. There are certainly other factors besides current and future income tax impact that should be considered as well, but there is no reason to not utilize the Roth catch-up based upon the income tax impact.

As a final consideration, if the individual has not already maximized other available pre-tax accounts, such as a health savings account (HSA), those options should be evaluated first. Pre-tax contributions reduce current taxable income in a similar way catch-up contributions previously did. Assuming no additional pre-tax vehicles are available leveraging the Roth catch-up contribution generally provides the most favorable long-term outcome.

*Resource by the CAPTRUST wealth planning team.*

*Source:*

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