
About this strategy

Contributing to employer-sponsored plans like a 401(k) is a triple benefit, including 1) reducing taxable income by the amount of contributions, which reduces income taxes by your marginal rate, 2) the savings grow tax-free until withdrawn and 3) many plans offer employer matching contributions, which is like earning free money just by saving. Employee contributions are reported on W-2, Box 12, code D. Employee pre-tax contributions lower taxable income, and the tax savings are calculated using the applicable federal and state tax rates, unless changed.

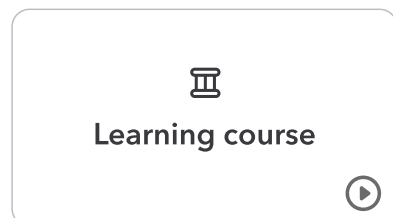
Strategy requirements

- The taxpayer and/or spouse must have a wages from a W-2.
 - The employer must sponsor a 401(k) retirement savings plan.
 - The plan document defines the employee contributions that can be made to the plan. Usually employee pre-tax contributions are limited to a percentage of wages, such as 25%.
 - Employee pre-tax contributions to 401(k) plans are subject to social security and medicare taxes, but not subject to federal income taxes or state income taxes.
 - If participating in multiple plans, the aggregate employee contributions for all plans are subject to the annual limitation.
 - Employee contributions are fully vested and grow tax-deferred until withdrawn, when distributions become subject to income taxes.
 - Fidelity reports that 70% of plans now offer Roth 401(k) provisions, so consider combining Roth contribution strategies with pre-tax contribution limits.
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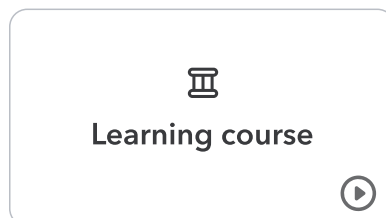
Strategy limit(s) for 2023

- \$22,500 employee maximum contribution, or \$30,000 if age 50 or older.
- Total contributions from both the employee and employer is the lesser of \$66,000 or 100% of compensation. Individuals age 50 and over can contribute an additional \$7,500.

Resources



[Tax strategies: Retirement planning for your future](#)



[See how this strategy works in Intuit Tax Advisor](#)

Taxpayer this applies to

- Employee taxpayers with employers who sponsor a 401(k) or similar plan.
- Business owners with employees (if a solo business owner, see more applicable strategies below) who sponsor a 401(k) or similar plan.
- These limits also apply to 403(b)s, most 457 plans, and the federal government's Thrift Savings Plan.

Ready to put this strategy in action?

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Or call our advisory experts at **888-845-6079** for a fast, free consultation.