Here's a breakdown of the benefits of various retirement accounts (401(k), IRA (see **The Pro-Rata Rule below**), Roth IRA, Roth 401(k)) along with the maximum contribution limits for each type. This will help explain the differences and provide a comprehensive overview:

Retirement Account Comparison Chart

Account Type	Contribution Limits	Employer Contributions	Tax Benefits	Withdrawal Taxation	Income Limits	Required Minimum Distributions (RMD)
401(k)	$23,000 (2024), $30,500 (if 50+ - "catch-up" contributions)	Employer can contribute up to $45,500 (2024 total contribution limit of $69,000)	Pre-tax contributions lower taxable income now; grows tax-deferred	Withdrawals taxed as ordinary income	No income limit for contributions, but higher earners may face limits on tax deductions for other accounts	RMD begins at age 73
Traditional IRA	$7,000 (2024), $8,000 (if 50+ - "catch-up" contributions)	None	Pre-tax contributions lower taxable income now; grows tax-deferred	Withdrawals taxed as ordinary income	Income limits for tax-deductible contributions (for high earners)	RMD begins at age 73
Roth IRA	$7,000 (2024), $8,000 (if 50+ - "catch-up" contributions)	None	Contributions are made after-tax, but qualified withdrawals are tax-free	Qualified withdrawals are tax-free	Income limits for contributions; phased out at higher incomes (e.g., $230,000 for married filing jointly)	No RMDs for the account holder
Roth 401(k)	$23,000 (2024), $30,500 (if 50+ - "catch-up" contributions)	Employer can contribute (up to $45,500 total for 2024)	Contributions are after-tax; grows tax-free	Withdrawals are tax-free if qualified	No income limits for contributions	RMD begins at age 73
S-Corp Contributions (401(k))	$23,000 (2024), $30,500 (if 50+ - "catch-up" contributions)	Employer (S-corp) can contribute a portion of compensation as employer contributions	Contributions can be deducted from taxable income; grows tax-deferred	Taxed as ordinary income when withdrawn	Subject to the same 401(k) income limits, but total contributions can include both employee and employer amounts	RMDs begin at age 73

Detailed Explanation

1. **401(k):**
    - **Contribution Limits:** For 2024, individuals can contribute up to $23,000 annually, or $30,500 if they are 50 or older.
    - **Employer Contributions:** Employers can contribute additional funds, typically in the form of a match, up to the combined limit of $69,000.

    - **Tax Benefits:** Pre-tax contributions lower your taxable income in the year they are made, and the account grows tax deferred.
    - **Withdrawals:** Withdrawals are taxed as ordinary income when taken in retirement.
    - **RMDs:** Required Minimum Distributions (RMDs) start at age 73.
2. **Traditional IRA:**
    - **Contribution Limits:** The contribution limit is $7,000 for 2024, or $8,000 if you are 50 or older.
    - **Employer Contributions:** There are no employer contributions for a Traditional IRA.
    - **Tax Benefits:** Contributions are made pre-tax, reducing your taxable income for the year. The account grows tax deferred.
    - **Withdrawals:** Withdrawals are taxed as ordinary income.
    - **RMDs:** RMDs begin at age 73.
    - **Income Limits:** High-income earners may not be able to deduct their IRA contributions.
3. **Roth IRA:**
    - **Contribution Limits:** Same as Traditional IRA – $7,000 for 2024, or $8,000 if 50+.
    - **Employer Contributions:** Roth IRAs do not allow employer contributions.
    - **Tax Benefits:** Contributions are made after-tax, but the account grows tax-free. Qualified withdrawals are tax-free, including earnings.
    - **Withdrawals:** If the account holder meets the age and holding requirements, withdrawals are tax-free.
    - **Income Limits:** Contributions are phased out for higher earners (e.g., over $230,000 for married couples filing jointly).
    - **RMDs:** Roth IRAs do not require minimum distributions while the account holder is alive.
4. **Roth 401(k):**
    - **Contribution Limits:** Same as the regular 401(k) – $23,000 for 2024, or $30,500 if 50+.
    - **Employer Contributions:** Employers can also contribute to a Roth 401(k) (total contributions must not exceed $69,000).
    - **Tax Benefits:** Contributions are made after-tax, so the account grows tax-free, and qualified withdrawals are tax-free.
    - **Withdrawals:** Withdrawals are tax-free if certain requirements (e.g., age 59½ and the account held for at least 5 years) are met.
    - **RMDs:** Roth 401(k)s are subject to RMDs at age 73, unlike Roth IRAs.
5. **S-Corp Contributions (401(k)):**
    - **Contribution Limits:** Same as regular 401(k), with both employee and employer (S-Corp) contributions combined. For 2024, the maximum combined contribution is $69,000.
    - **Employer Contributions:** The S-Corp can make contributions on behalf of employees, which include a profit-sharing portion and other employer contributions.

    - **Tax Benefits:** Pre-tax contributions reduce taxable income, and the account grows tax deferred.
    - **Withdrawals:** Taxed as ordinary income when withdrawn.
    - **RMDs:** Like all 401(k)s, S-Corp 401(k) plans require RMDs starting at age 73.

Summary of Key Points:

- **Traditional 401(k) and IRA** allow for tax-deferred growth and immediate tax savings, but withdrawals are taxed as ordinary income.
- **Roth accounts (Roth IRA, Roth 401(k))** provide tax-free growth and tax-free withdrawals in retirement, but contributions are made with after-tax dollars.
- **S-corp contributions** work similarly to other 401(k) plans, but the employer (S-Corp) can also contribute based on employee compensation.
- **Required Minimum Distributions (RMDs)** are only required for 401(k) plans and Traditional IRAs, not Roth IRAs. However, Roth 401(k)s do require RMDs starting at age 73.

New for 2025: 401(k) contribution limits for people ages 60 to 63 are super-sized. If you are 60, 61, 62 or 63 in 2025, you can contribute an additional $11,250 to an employer-based 401(k), 403(b), 457 or (most) government thrift programs for a total contribution of $34,750.

A **Roth IRA conversion** (sometimes called a **backdoor Roth IRA** when done indirectly) allows you to move funds from a **Traditional IRA** (or another pre-tax retirement account) into a **Roth IRA**, paying income taxes on the converted amount in the year of conversion.

The Pro-Rata Rule:

When you convert from a Traditional IRA to a Roth IRA, the IRS requires you to use the **pro-rata rule** to determine how much of your conversion will be taxable. This rule applies if you have both **pre-tax contributions** (tax-deferred) and **after-tax contributions** (nondeductible) in any of your Traditional IRAs.

How the Pro-Rata Rule Works:

1. **Pro-Rata Calculation**: When you convert a portion of your Traditional IRA to a Roth IRA, the IRS treats the conversion as a blend of both pre-tax and after-tax funds, based on the overall balance of pre-tax and after-tax money in all your Traditional IRAs.

2. **Impact of Other IRAs**: Even if the $7,000 you just contributed to the Traditional IRA is all after-tax (nondeductible), if you have **other Traditional IRAs that contain pre-tax funds**, the conversion will include a proportionate amount of pre-tax money from those other IRAs as well**.**
3. **Example Scenario:**

- **Existing Traditional IRAs**: Suppose you have $50,000 in a Traditional IRA with **pre-tax contributions** (e.g., from a previous 401(k) rollover). This $50,000 is fully tax-deferred.
- **New Contribution**: You contribute **$7,000** to a new Traditional IRA (and let's assume this is all after-tax money).
- **Conversion to Roth IRA**: You plan to convert the $7,000 (which is entirely after-tax) to a Roth IRA next week.
- **Pro-Rata Rule**: Since you have $50,000 in pre-tax money across all your IRAs, the IRS will apply the pro-rata rule. If you convert the full $7,000 to a Roth IRA, **you cannot convert just the after-tax portion**. The conversion will be a blend of pre-tax and after-tax money.

The calculation would look like this:

- Total IRA balance: $50,000 (pre-tax) + $7,000 (after-tax) = $57,000
- After-tax portion of the total balance: $7,000 / $57,000 = 12.28%
- **Taxable portion** of your conversion: 87.72% (pre-tax portion).

So, if you convert $7,000 to a Roth IRA, approximately 87.72% of that amount ($6,139) will be subject to **income tax**, and only about 12.28% ($861) will be tax-free (since its after-tax contributions).

Key Points to Remember:

- The **pro-rata rule** affects the entire balance across **all your Traditional IRAs** (not just the one you're contributing to or converting).
- You **cannot isolate** after-tax contributions for a conversion; the IRS requires you to treat your Traditional IRAs as a single pool of funds.
- **Taxes**: The portion of your conversion that comes from pre-tax contributions (and earnings) will be taxable when you convert it to a Roth IRA.

Conclusion:

If you have other Traditional IRAs with pre-tax money, the pro-rata rule will apply when you do a Roth conversion. You'll need to account for this in your tax planning since **not all your $7,000 conversion will be tax-free**. Only the portion that reflects after-tax contributions will be tax-free, and the rest will be taxable.