

## What Does Pre-Tax Really Mean?

'Pre-tax' is used to describe wages earned but not taxed. **The IRS has special rules for pre-tax earnings.** The IRS allows taxes to be **deferred**, or put off until a later time, on some of your wages and **tax free** on others, depending on how you use that money. For example, if you redirect 'pre-tax' money to pay for health insurance or for a healthcare flexible spending account (FSA), those wages are not taxed at all, including FICA. If you contribute to an employer retirement plan, those wages won't be taxed (federal) until you withdraw the money when you retire. [The exception is a **Roth** 401(k) plan.]

Want to see what pre-tax will mean to you? Here is a quick calculation to help you see how you can benefit from using pre-tax dollars.\*

1. Enter your gross wages: \_\_\_\_\_
2. Enter the annual amount of your following (FICA exempt) contributions:
  - Health insurance premiums: \_\_\_\_\_
  - Health Savings Account (HSA): \_\_\_\_\_
  - Flexible Spending Account (FSA) – Healthcare: \_\_\_\_\_
  - Flexible Spending Account (FSA) – Dependent Care: \_\_\_\_\_
  - Total (FICA exempt) Contributions:** \_\_\_\_\_
3. Calculate FICA *taxes saved*:
  - [multiply total FICA exempt contributions (line #2) x 7.65%] = \_\_\_\_\_
4. Calculate PA income *taxes saved*:
  - [multiply total FICA exempt contributions (line #2) x 3.07%] = \_\_\_\_\_
5. Calculate local income *taxes saved*:
  - Enter local income tax rate: \_\_\_\_\_%
  - [multiply total FICA exempt contributions (line #2) x local income tax rate] = \_\_\_\_\_
6. Enter your annual retirement plan contributions: \_\_\_\_\_
7. Total pre-tax contributions: [add lines (#2) and (#6)] = \_\_\_\_\_
8. Calculate federal income *taxes saved*:
  - Enter federal income tax rate: \_\_\_\_\_%\*\*
  - [multiply total pre-tax contributions (line #7) x federal tax rate] = \_\_\_\_\_
10. Total Taxes Saved: [add lines (#3, 4, 5, and 8)] = \_\_\_\_\_

Note that FICA, state, and local taxable wages are \_\_\_\_\_ and federal taxable wages are \_\_\_\_\_ after respective pre-tax contributions.

*\*This calculation is for illustrative purposes only; see your tax preparer for confirmation of actual dollars saved. Maximum dollars amounts are valid for 2017.*

*\*\*Use your current federal tax bracket. See [www.irs.gov](http://www.irs.gov).*