August 23, 2012

A CRASH COURSE IN RETIREMENT PLAN CONTRIBUTIONS

Tax Exempt and Government Entities

Employee Plans

Introduce yourself, give a little information about your IRS career.

Why Do It Right?

- Saving enough for retirement
- Tax advantages of a retirement plan
- Consequences of doing it wrong
  - disqualification
  - penalties
  - client goodwill

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Experts have testified that Americans will need 70-80% of their preretirement income to maintain their current lifestyle when they retire. Social Security's average benefit for 2012 is around $1,200 each month. That income is barely over poverty level – which is defined as around $900 per month for a single household. I don't know about you, but I don't want $300 a month to be the difference between tuna and cat food for dinner. Now's the time to look into retirement plan options for you and for your clients!

The tax advantages of having a qualified retirement plan – one that meets the requirements of the Internal Revenue Code - include:

•Employer contributions are deductible from the employer's income,

•Employee contributions (other than Roth contributions, which we'll be talking about a little later) aren't taxed until distributed to the employee, and

•Money in the plan grows tax-free.

Low and moderate-income individuals (including self-employed) who make employee contributions to their retirement plans and IRAs may also be eligible for a "Saver's Credit."

To take advantage of the tax-deferred benefits of a retirement plan, there are certain things you have to do.

You must make sure your plan meets the tax-qualification requirements – examples include:

•allowing employees into the plan when they are eligible,

•vesting employees after a certain number of years of service, and

•making required minimum distributions from the plan – just to name a few.

Who Must Participate in Your Plan?

- SEP
- SIMPLE IRA
- 401(k) and other "qualified plans"

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A major part of doing it right is getting the right people in your plan. We were talking with a group of small businesses a last year about the importance of saving for retirement and having a retirement plan for their employees. We were hoping to find out what sort of barriers may be keeping them from having a retirement plan, specifically a SEP or a SIMPLE IRA plan. One of the small business owners said that he had adopted a SEP for himself but he wasn't sure what kind of plan he wanted for his employees. That's not exactly how that works.

Which of those employees should he have included in his SEP?

Generally, a SEP must include all employees who have:

•worked for the employer during three out of the last five years,

•reached age 21, and

•received at least $550 in compensation during the year. That dollar limitation is subject to cost-of-living adjustments in later years.

What about a SIMPLE IRA plan?

Generally, any employee who earned $5,000 or more during any two preceding calendar years and is reasonably expected to earn at least $5,000 during the current year must be included in the SIMPLE IRA plan.

$5,000 in compensation. That means an employee who works only a quarter of the year, 500 hours, and makes $10 an hour meets the $5,000 participation rule.

Or, you may have an employee making $10 an hour that works just 10 hours a week. That's $5,000 a year. Those employees are easily overlooked since they likely aren't eligible for any vacation or sick leave, or any other employee benefits, and they may not even have a regular job they perform. But, they should be in the plan.

SEP and SIMPLE IRA Compensation

- Compensation used to determine which employees should be in the plan
  - SEP
  - SIMPLE IRA
- Compensation used to determine contribution amounts and limits
  - SEP
  - SIMPLE IRA

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Compensation seems a simple enough concept, right? It's the amount of money you earn. But it can get very complicated in the retirement plan world. Compensation is the basis for determining eligibility to participate in the plan, contributions and limits, and nondiscrimination.

The IRS has model forms for establishing SEP and SIMPLE IRA plans. If you use these forms to set up a plan, then compensation is pretty straightforward, it's W-2 wages. For a self-employed owner, compensation is earned income – we'll talk about that more later.

If your SEP or SIMPLE IRA plan is set-up using a non-IRS model document, things can get complicated. Compensation could include or exclude expense reimbursements, car allowances, bonuses, commissions, overtime, depending on the selections made. It's always important to go to the plan document and read exactly how it defines compensation.

SEP Plans

- May be adopted up to due date of the tax return, including extensions
- Contributions may be made by due date, including extensions
- Contributions not required

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A SEP plan can be adopted and contributions may be made up to the due date of the employer's tax return, plus extensions. These are great plans for a self-employed person that doesn't know how much profit the business will have until the income tax return is prepared during filing season.

Contributions are not required to be made to a SEP each year – another plus for a self-employed person with fluctuating income.

SEP Contribution Limits 2012

- SEP contributions are limited to the lesser of:
  - $50,000
  - 25% of compensation
- Compensation is limited to $250,000

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Employer contributions for each eligible employee under a SEP:

•are based only on the first $250,000 of compensation,

•must be the same percentage of compensation for all employees, and

•must be limited annually to the smaller of $50,000 or 25% of compensation, and paid to the employee's SEP-IRA.

In operation, you must follow the definition of compensation stated in the plan document. Compensation generally includes the pay a participant received from the employer for personal services for a year – that's W-2 compensation. The $250,000 compensation amount is indexed for inflation each year.

SEP Contribution Calculation

Name	W-2 Wages	Contribution %	Contribution Amount
Bill	$14,000	10%	$1,400
Rick	30,000	10%	3,000
Jan	50,000	10%	5,000
Marge	300,000	10%	25,000

Each participant must receive the same contribution percentage. In the example on this slide, each participant receives 10% of their eligible compensation. Marge's SEP-IRA receives a $25,000 contribution, that's 10% of $250,000, which is the compensation limit for 2012.

Odd situations that you might want to look out for:

What if an employee leaves before the end of the year or an employee leaves and comes back either during the same year or another year.

If they make $550 during the year, they should receive a contribution even if they are no longer employed at the end of the year. If they left and came back during the year, if they were otherwise eligible and made $550 during the year, they would receive a contribution.

SEP Contribution Calculation

- For self-employed individuals:
  - "Earned income" = net earnings from self-employment less:
    - ½ of your SE tax, and
    - Contributions for yourself

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If you are self-employed, compensation is your "earned income," which is defined as net earnings from self-employment after deducting both one-half of your self-employment tax, and contributions for yourself.

It gets a little complicated, so let's go through an example.

SEP Schedule C Owner

Schedule C income	$100,000
- (10% contribution to employees)	34,400
= Sch C Net Income	$ 65,600
- ½ SE tax	4,029
	$ 61,571

What is the contribution to the owner?

- .10 / 1.10 = .090909
- (.090909 x $61,571) = $5,597 contribution
- $61,571 – 5,597 = $55,974 x 10% = $5,597

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What if, in the example we had with four employees two slides ago, we add a wrinkle. There's now a Schedule C owner. On this slide, we need to find the correct contribution for the Schedule C owner when the other participants get a 10% contribution.

Our owner started with a $100,000 profit on Schedule C before deducting $34,400, the contribution for the other four employees. The net profit is the difference, $65,600. Deduct ½ the SE tax of $4,029, and you have $61,571 in self-employed income on which to calculate the contribution.

To get the proper contribution for the owner, you need to deduct the owner's contribution from the $61,571. This sounds complicated, but you can use a simple formula.

Take 10%, the contribution percentage provided to the other employees and divide it by 1 plus 10%. That's .10 divided by 1.10= 9.0909%. Multiply that by $61,571 and our Schedule C owner receives a $5,597 contribution.

We can check our math. $61,571 – 5,597 = 55,974 x 10%, which is $5,597.

The $34,400 contribution for the employees is deducted on the Schedule C. Our self-employed owner's $5,597 contribution is deducted on their 1040.

SEP Schedule C Owner

Net Profit from Schedule C = $100,000

- Prior to deduction for employer contributions

½ SE Tax = $6,141

Maximum Contribution = lesser of:

- $18,772 = ($100,000 - $6,141) x 20%
- $62,500 = $250,000 x 25%
- $50,000

($100,000 - $6,141 - $18,772) x 25% = $18,772

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For this example, we’re trying to find the maximum contribution for a Schedule C owner. This person has no other employees and is a sole proprietor with a net profit from Schedule C of $100,000. The sole proprietor’s deduction for one-half of self-employment tax is $6,141.

Because the maximum that can be deducted is 25% of compensation that remains after the plan contribution, the rate for the self-employed person works out to 20% of “earned income.”

.25 / 1.25 = 20%.

We have an example:

The maximum contribution that could be contributed to the SEP for 2012 would have been the lesser of three amounts:

The first amount is $18,772, which is calculated by taking the Schedule C net profit of $100,000, less one-half of the Schedule C owner’s SE tax, which in this case is $6,141 and multiplying the difference by 20%.

The second amount is $62,500; that’s $250,000, the compensation limit for 2012, multiplied by 25%.

The third amount is the maximum dollar limitation for 2012, which is $50,000.

In our example, the lesser of these three amounts is $18,772.

So, let’s check this. Take $100,000 - $6,141 - $18,772 (that’s the contribution) x 25% and you arrive at $18,772.

If your plan's contribution rate is a whole percentage, you can use the table in Pub 560, *Retirement Plans for Small Business,* to find your reduced contribution rate. If your plan rate is not a whole percentage, use the rate worksheet in Pub 560.

SIMPLE IRA Plans

- Must be the only plan
- Cannot terminate mid-year
- Deposits of salary deferrals must be made within 30 days of month withheld
- Matching or other employer contributions made by tax return due date, including extensions

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You cannot maintain both a SIMPLE IRA plan and another plan. If you have a SIMPLE IRA plan and during 2012 you decide you want a different plan, such as a 401(k), you have to wait until 2013 to adopt that other plan.

If you have another type of plan and want to switch to a SIMPLE IRA plan, you have to wait until next year.

Typically, SIMPLE IRA plans are established using an IRS model form, 5304-SIMPLE or 5305-SIMPLE. The difference between these two forms is that

•with one the plan sponsor decides where the money is first deposited and

•with the other, the employees get to decide.

Once you establish a SIMPLE IRA plan, you must maintain it for a full-calendar year, except in the initial year, in which case the plan can be established up to October 1 of that year.

You must make the contributions that you promised your employees in the SIMPLE IRA plan notice each year. This means that you can't suspend or modify your employer matching contributions mid-year. Also, you can't terminate a SIMPLE IRA plan in the middle of the year. You can't even switch from a Form 5304-SIMPLE to a Form 5305-SIMPLE in the middle of the year.

SIMPLE IRA plans allow employees to defer a portion of their salary toward their retirement. These salary deferrals must be deposited into the employees' SIMPLE IRAs within 30 days of the month withheld.

In addition, employers are required to make either a 3% match or a 2% contribution to all eligible employees each year. These contributions must be made to the SIMPLE IRAs by the

SIMPLE IRA Contribution Limitations

- Employee's salary deferrals are limited to the lesser of:
  - $11,500
  - 100% of compensation
- Plus $2,500 catch-up for age 50+
- Employer contribution, either
  - 3% dollar for dollar match of deferral, or
  - 2% of compensation
    - Compensation limited to $250,000

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Only employee salary deferral contributions and the employer's 3% match or 2% nonelective contribution can be made to a SIMPLE IRA plan - There can be no other contributions.

The amount an employee may contribute to a SIMPLE IRA cannot exceed $11,500 for 2012 or 100% of the employee's compensation, whichever is less. Employees age 50 or over can contribute an additional $2,500.

The employer is required to make a contribution. They can either match each employee's salary deferral contributions on a dollar-for-dollar basis, up to 3% of the employee's compensation. Or, the employer can choose to make nonelective contributions of 2% of each eligible employee's compensation, even if the employee doesn't make salary deferral contributions.

I'd like to point out that we see frequent mistakes when a participant leaves during the year. The employer contribution, either match or nonelective, must still be made for that employee.

The employer must notify the plan participants each year whether it will provide the matching or nonelective contribution the next year at least 60 days before that next year starts.

An employee's compensation, up to $250,000 for 2012, is taken into account to figure the 2% nonelective contribution limit. The $250,000 limit does not apply to the 3% match.

SIMPLE IRA 3% Match Calculation

Name	W-2 Wages	Deferral	Match
Bob Age 50	$14,000	$14,000	$420
Ron	30,000	2,000	900
Jim	50,000	0	0
Marge	300,000	11,500	9,000

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We have an example.

Since the SIMPLE IRA salary deferral limit is the lesser of $11,500, or 100% of compensation, Bob is able to defer $11,500. Our Bob is age 50, so he can defer an additional $2,500, for a total deferral of $14,000. His match is 3% of his W-2 wages, or $420.

Ron's match is also 3% of his salary, or $900. Jim chose not to defer this year, so he gets nothing.

Marge defers $11,500, the maximum allowable since she is under age 50. Marge's match is 3% of $300,000, or $9,000. There is no compensation limit on the match, but the match cannot exceed the salary deferral.

SIMPLE IRA 2% Nonelective Employer Calculation

Name	W-2 Wages	Deferral	Employer 2%
Bob	$14,000	$14,000	$280
Ron	30,000	2,000	600
Jim	50,000	0	1,000
Marge	300,000	11,500	5,000

Now let's assume the employer chose the 2% nonelective contribution.

Bob and Ron each receive an employer contribution to their SIMPLE IRAs equal to 2% of their W-2 wages.

Jim also receives a 2% employer contribution, even though he chose not to defer any of his salary in the SIMPLE IRA plan.

In the previous example, we used Marge's full $300,000 compensation to determine the 3% match. For the 2% employer contribution option, Marge's compensation is limited to $250,000, giving her a total employer contribution of $5,000.

What happens if you have eligible employees that leave during the year and come back before the year-end? They should start deferring as soon as possible. And they will also share in the 3% match or 2% employer contribution.

What if Bob, Ron, Jim, and Marge from our example in the last two slides all left in the middle of the year? Even though they terminated before the end of the year, they must still share in the 3% match or 2% employer contribution. There is no end of year employment requirement in these plans. If, in our example, we added the caveat that Bob, Ron, Jim and Marge all terminated, the calculations for the 3% match or 2% employer contribution would be exactly the same.

SIMPLE IRA Schedule C Owner

- Net profit from Schedule C = $20,000
  - After deduction for any employer contributions
- Less ½ SE tax = $1,228
- Amount available = $18,772
- Maximum deferral = $11,500
  - 3% match = $563, or
  - 2% nonelective contribution = $375

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Let's look at how to calculate the SIMPLE IRA contribution for a Schedule C owner. We'll call her Beth. After deducting the employer contributions made to the SIMPLE IRAs of the other employees, Beth has a Schedule C net profit of $20,000.

Subtract ½ of the self-employment tax in the amount of $1,228 from the $20,000 and you have $18,772, which is the compensation available for Beth to make deferrals.

In our example, if we assume Beth is under age 50, she could defer up to $11,500. If she deferred $11,500, the employer match at 3% of compensation would be $563, or if they had elected the 2% employer contribution, the amount would be $375.

Remember, salary deferral contributions to a SIMPLE IRA are required to be made within 30 days after the end of the month in which the deferrals were made. For a self-employed Schedule C owner, that means the last deferral must be deposited within 30 days after the end of the year. That's January 30. If it's not made by January 30, the tax-exempt status of the entire SIMPLE IRA plan would be jeopardized.

The 3% match or 2% nonelective contribution would not have to be made until the due date of the tax return, including extensions.

Compensation in a 401(k) Plan

- Know your plan's definitions
- Different definitions of compensation for different purposes
  - testing
  - to calculate contributions
  - determine limits

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A Crash Course in Retirement Plan Contributions|Employee Plans

It's very important to know how your plan document defines compensation. You need to dig through the plan document to determine how the plan defines compensation for different situations. You will likely find different definitions of compensation for nondiscrimination testing, calculating contributions or determining limits.

Wouldn't it be nice if we only had to worry about one limit? Unfortunately, that's not the case. You must monitor three interrelated limits in retirement plans.

Do you have a client with several jobs? They might be an employee for two unrelated employers, both with retirement plans. Or, maybe they're a W-2 employee for a hospital with a 401(k) plan, and they're moonlighting at a different hospital where they're considered self-employed and they have a self-employed retirement plan. We'll look at both scenarios and what you may need to watch with these limits.

401(k) Deferral Limit – Code Section. (402(g)

- §402(g) = **individual's** elective contributions per calendar year
- 2012 limit = $17,000
- Example:
  - Don, age 30
  - 401(k) plan with $50K comp
  - 401(k) plan with $20K comp

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The first limit is the Code Section 402(g) limit. For 2012, the 402(g) limit is $17,000. This is an individual's personal limit for a calendar year. This means that $17,000 is the most that one person can defer in all plans in which they participate during one calendar year.

Here's an example. Let's say Don, who is 30, works for a company with a 401(k) plan. Don also has a side business that sponsors a 401(k) plan.

The most that Don can defer in 2012 is $17,000. He can split that amount between the two businesses any way he chooses, but at the end of the year, the most he can have deferred is $17,000. So, Don could defer $16,000 to his employer's 401(k) plan and $1,000 to his side business's plan.

However, if Don deferred $10,000 to each plan, it would jeopardize the tax-exempt status of BOTH plans, even though neither one individually exceeded the 402(g) limit.

If Don were age 50, he could defer an additional $5,500 catch-up contribution. This is also a personal limit.

Plan Contribution Limits – Code Section 415

- §415 = individual's **total annual additions** per plan per limitation year
- 2012 limit = lesser of:
  - 100% of compensation, or
  - $50K
- Example:
  - Don, age 30
  - Employer with 401(k) - $50K comp
  - Self-employed with profit-sharing - $20K comp

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Next is the 415 limit, which restricts the amount one individual can have allocated to their plan account in one year. This includes employer contributions – matching or profit-sharing or forfeitures and employee contributions – before-tax or after-tax, including catch-up contributions.

For 2012, this limit is the lesser of $50,000 or 100% of the participant's compensation.

Let's look at Don again. But this time, I want to change the facts a bit. Don is still a W-2 wage earner with an employer. Let's say Don's side business adopts a profit-sharing plan that operates on a calendar year.

Don earns $20,000 a year from his side business. His 415 limit is $20,000…100% of 20,000 is $20,000. That is the maximum Don can have allocated to his account this year. Right? There's a third limit on the next slide, so we'll hold off on making a decision here.

So what about Don's 401(k) plan at his day job? Let's assume he elected to defer $17,000. His W-2 will show his income as $33,000 ($50,000 less his deferrals of $17,000). Assume the plan calls for a 10% match and the employer wants to give the maximum profit-sharing contribution.

Don's matching contribution will be $1,700. The maximum amount Don's employer can contribute to his account is $50,000 (that's compensation inclusive of deferrals) x 100%, or $50,000. Don has already deferred $17,000 and received an employer match of $1,700, so the maximum profit-sharing contribution the employer can give Don is $31,300. Wow, Don had a very good year. But wait! What about that third limit?

Plan Deduction Limit – Code Section 404

- §404 = overall tax-deductible contribution per **employer per tax year**
- Limit is 25% of all eligible employees' compensation

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Under Code Section 404, there is an overall deduction limit that the employer can take for a tax year of of 25% of all eligible employees' compensation. Let's make things easy on ourselves and assume that Don's employer has a calendar-year tax year.

There may be some employees with contributions that are less than 25% of their compensation and some that are more. That's ok – for this limit – as long as the total employer contributions – excluding employee elective deferrals – are less than the 25% limit.

On the last slide, Don's employer wanted to give Don a $31,300 contribution. But can Don's employer deduct the $31,300? Let's assume for simplicity that Don is the only employee. $50,000 x 25% is $12,500, so, NO. Don's employer could still make the contributions but he would not be able to deduct the full $31,300 contribution.

Remember Don's side business? He had compensation of $20,000. His deduction is also limited to 25% of compensation.

As you can see, this can get very complicated.

401(k) Match Calculation

- How do you calculate the employer match in a 401(k) plan?
  - Follow the terms of the plan document
- Example: plan formula = match is 50% of salary deferrals up to 5% of compensation
  - Comp = $300,000
  - Salary deferrals = $17,000
  - Match = ($250,000 x 5%) x 50% = $6,250

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We often get questions about how to calculate the employer match. What if an employee's compensation exceeds the annual dollar limit - $250,000 in 2012? How do you calculate the employee's matching contribution?

The short answer is you must make matching contributions according to the plan's formula.

Let's look at an example. Your plan requires a match of 50% of salary deferrals up to 5% of compensation. Mary's compensation for the year was $300,000 and she deferred the maximum, $17,000. Although Mary earned $300,000, the plan can only use $250,000 of her compensation when applying the matching formula.

Mary's matching contribution would be $6,250.

Because Mary's $17,000 elective deferrals exceed $12,500 (5% of $250,000), the 50% match is only applied to the first $12,500 of Mary's salary deferrals. Mary's employer must make a $6,250 matching contribution for her.

Maximum Contribution

Example 1: Maximum contribution based on $50,000 W-2 comp, owner/employee age 50				
Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	$17,000	$5,500	$12,500	$35,000
SEP	$ 0	$ 0	$12,500	$12,500
Profit-Sharing	$ 0	$ 0	$12,500	$12,500

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A Crash Course in Retirement Plan Contributions|Employee Plans

Many business owners who have no employees other than a spouse have shown interest in "solo 401(k)" plans. But is a solo 401(k) plan the right plan? Or will a SEP or profit-sharing plan do the job?

Solo 401(k) plans appear to be intended for a select group of sole owners who want to maximize their contributions and deductions. They want to squeeze out the largest possible retirement plan deduction, short of adopting a defined benefit plan.

401(k) plans do offer an advantage, especially in the lower compensation range. In our example, your client's compensation is $50,000. At this compensation level, all three plans allow for a $12,500 employer contribution. But the 401(k) plan also permits a $17,000 salary deferral contribution. That makes it $17,000 better than in a SEP or profit-sharing plan. If the participant is at least age 50, the $17,000 advantage increases to $22,500 because of the $5,500 catch-up contribution.

Why is this? Profit-sharing and SEP plan deductions are limited, under 404, to the lesser of 25% of compensation, or the dollar limit of $50,000 in 2012. At $50,000 compensation, the deduction is limited to 25% of that amount, or $12,500.

But 401(k) deferrals have their own deductible limit of 100% of compensation. These amounts are subject to the $50,000 maximum, but are not subject to the 25% of compensation limit. Catch-up contributions are not included in the $50,000/ 25% deduction limit.

In our $50,000 example, a 401(k) plan provides for a deduction that is up to $35,000. That's $22,500 greater than what you'll get from a profit-sharing or SEP.

That's a big difference, but is it necessary? If $12,500 is more than enough, a profit-sharing or SEP plan is much easier to administer.

Maximum Contribution

Example 2: Maximum contribution based on $200,000 W-2 comp, owner/employee age 50				
Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	$17,000	$5,500	$33,000	$55,500
SEP	$ 0	$ 0	$50,000	$50,000
Profit-Sharing	$ 0	$ 0	$50,000	$50,000

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This example is based on $200,000 in compensation. 25% of $200,000 is $50,000. So the SEP, profit-sharing and 401(k) plan all provide the maximum $50,000 deduction.

Since catch-up contributions are not included in the deduction limit, the solo 401(k) provides an advantage only if you're age 50 or over and make a catch-up contribution.

All the added costs and additional administrative headaches of a solo 401(k) plan only provide an additional contribution of $5,500, and that's only if you're at least age 50.

The point of this slide is to emphasize that a solo 401(k) plan may not be the right plan for everyone. If you're interested in contributing the absolute maximum amount possible, other than with a defined benefit plan, then a solo 401(k) plan might be the right plan. Just be aware that once other employees meet eligibility requirements and become participants, it's just another 401(k) plan; with testing and coverage requirements and with the owners' deferrals tied to the deferrals of the other employees.

One Employee, Two Plans Unrelated Employers

- Employer A and B contributions and limits are calculated separately
- Employee Limit
  - SIMPLE limited to $11,500
  - 402(g) - Total of all salary deferrals to 401(k) and 403(b) plans is limited to $17,000 in 2012
- Exception for unrelated employers

In this situation, you’re a W-2 employee for an unrelated employer with a 401(k) plan and you also work elsewhere as an independent contractor. Your business as an independent contractor is a sole proprietorship, and you set up a SEP for this business. You do well in both areas. You max your 401(k) contributions at the W-2 job, in the amount of $17,000.

Now you’re preparing to file your taxes and want to contribute the maximum possible to your SEP. Your earned income accommodates the maximum contribution amount of $50,000. Can you make the full $50,000 contribution or is that amount reduced by amounts you contributed at your W-2 job?

With one exception, amounts contributed at your W-2 job have zero effect on what you can contribute to your self-employed plan. Many CPAs and other tax preparers, even investment writers, say that the 401(k) deferral made to the one plan reduces the $50,000 maximum deduction to the other unrelated plan. It does not. These are unrelated employers. One does not affect the other. The 49ers’ plan does not affect the Raiders’ plan.

If both plans are 401(k) plans, there is an individual $17,000 deferral limit that applies.

Also, if you have an ownership interest in the W-2 employer, this all gets very difficult and would require a benefits professional to assist.

There is an exception for 403(b) plans. These are typically maintained by schools, hospitals or other tax-exempt employers. If, in our example, you were a W-2 employee for a tax-exempt employer with a 403(b) plan, those 403(b) contributions reduce the maximum contribution that can be made to the self-employed plan.

If your 403(b) contribution was $10,000, the maximum allowable contribution to the unrelated SEP would be reduced by $10,000, for a maximum $40,000 SEP contribution. This is because

One Employee, Two Plans Related Employer

- Employees of A and B are treated as if they were employed by one employer
- One 415 limit, one 404 limit
- How to calculate the contribution for an employee who is covered by plans of two employers
- Salary deferrals limited to $17,000 per employee

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A Crash Course in Retirement Plan Contributions|Employee Plans

What if you work for two related companies that are considered to be part of a controlled group? How will that affect your contribution limits?

Since you work for two related employers that are considered to be in controlled group, you have one 415 limit. Contributions, deferrals, and any forfeitures allocated to your account in both plans would be combined and limited to the lesser of $50,000 or 25% of your compensation earned from both employers.

For the deductible limit under section 404, contributions and deferrals allocated to your account would be combined for both employers.

Under the 402(g) limit, just like with unrelated employers, the total of all your 401(k) salary deferrals would be limited to $17,000 for 2012.

For a SEP or SIMPLE IRA plan, all employees of a controlled group of employers must be participants in the plan. Compensation earned from those related employers must be used to determine any contribution allocations and deferrals.

For a qualified plan, such as a 401(k) plan, please check your adoption agreement and plan document. It's possible for a plan to only cover employees of A or B, or for A and B to have their own plan. When you have related employers and related plans, it can get very complicated. We only have a few minutes left, so if you have related employers and plans, work with the plan administrator to determine the proper contribution allocations, deferrals, and testing requirements.

If you'd like to learn more about what makes two employers related employers, what makes them be a part of a controlled group, please take a look at last year's Tax Forum presentation. A controlled group exists where an individual or business owns a certain percentage of another

If you're covered by a plan at work - does it limit your IRA deduction?

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single or head of household	≤$58,000	full deduction up to your contribution limit
	>$58,000 but <$68,000	partial deduction
	≥$68,000 or more	no deduction
married filing jointly or **qualifying widow(er)**	≤$92,000	full deduction up to your contribution limit
	>$92,000 but <$112,000	partial deduction
	≥$112,000	no deduction
married filing separately	<$10,000	partial deduction
	≥$10,000	no deduction

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Your traditional IRA deduction may be limited if you're covered by a retirement plan at work and your income exceeds a certain level. If you're covered by a plan at work and your filing status is single or head of household, and your modified AGI is $58,000, or less, then you can take a full deduction. If it's $68,000 or more, then no deduction, and in between, a partial deduction.

If your filing status is married filing jointly or qualifying widow you can take a full deduction if your modified AGI is $92,000 or less. If it is $112,000 or more, then no deduction, and in between, a partial deduction.

If you're NOT covered by a plan at work – is your traditional IRA deduction limited?

If Your Filing Status Is...	And Your Modified AGI Is...	Then You Can Take...
single, head of household, qualifying widow(er), or MFJ or separately with a spouse who isn't covered by a plan at work	Any amount	full deduction up to your contribution limit
married filing jointly with a spouse who is covered by a plan at work	≤$173,000	full deduction up to your contribution limit
	>$173,000 but <$183,000	partial deduction
	≥$183,000	no deduction
married filing separately with a spouse who is covered by a plan at work	<$10,000	a partial deduction
	≥$10,000	no deduction

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If you and your spouse are NOT covered by a retirement plan at work, then you can take a full deduction up to your contribution limit.

What if you're not covered by a plan at work, but your spouse is covered by a plan? Your traditional IRA deduction may be limited.

If your modified AGI is $173,000 or less and your spouse is covered by a plan at work, you may take a full deduction for your IRA contribution. If your modified AGI is $183,000 or more, and your spouse is covered by a plan at work, then you are not entitled to a deduction. And in between – a partial deduction.

But that's IF you file married filing jointly. If you file separately, you get no deduction if your modified AGI is $10,000 or more.

If you file separately and didn't live with your spouse at any time during the year, your IRA deduction is determined under the "single" filing status.

Didn’t Get It Right?

- Use IRS correction program to fix:
  - Missed contributions
  - Omitted employees
  - Skipped plan amendments
- Easy, check-the-box forms
- Low $250 fee for SEPs or SIMPLE IRA plans

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Now, if you’ve been listening to these rules and thinking to yourself, “how can anyone possibly get all this right all of the time?” This slide is your slide.

If you do mess up on contributions or other plan qualification rules, the IRS has a voluntary compliance program that may be able to help. It offers a couple of correction options that will allow you to correct those mistakes and keep your plan qualified.

Our self-correction program, SCP, allows you to correct certain errors without involving the IRS at all. You just fix it, make changes to your internal controls to make sure the error doesn’t occur in the future, and then you go on about your business.

Our voluntary correction program, VCP, is for errors that are more major. You file an application and tell us what you did wrong, how you fixed the mistakes, and pay a small sanction.

To find out how to do this, go to IRS.GOV and search for CORRECTING PLAN ERRORS. You’ll find all the resources you need to correct mistakes in your retirement plan, things like easy “check the box” forms.

Questions and Resources

- www.irs.gov
- RetirementPlanQuestions@irs.gov
- 877-829-5500
- Newsletters

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You can visit our website at www.irs.gov/retirement-plans. Or you can find the Retirement Plans Community tab from the main irs.gov landing page.

There are two different ways that you can discuss your questions with a retirement plan specialist. Email your questions to RetirementPlanQuestions@irs.gov or, if you prefer, call our Customer Account Services toll-free at (877) 829-5500. Our specialists must respond to all email questions by telephone, so please remember to include your phone number and we'll call you with the answer to your questions.

We also have two free, quarterly electronic newsletters. The first is the *Employee Plans News,* geared to the practitioner community, and is more technical and involved than our newsletter geared to plan sponsors, *Retirement News for Employers*.

You can easily subscribe to these newsletters. Just click on "Newsletters" on our Retirement Plans Community landing page, then "Subscribe," and provide us with your email address. That's all it takes. Then, whenever we issue an edition, you'll receive a message in your email inbox with a link.

Questions?