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IRS Helps Small Business Retirement Plans Stay Compliant

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WASHINGTON — The Internal Revenue Service moved today to make it easier for retirement plans to stay within complex rules and to reduce barriers that discourage some businesses, particularly small businesses, from adopting such employee benefits.

The IRS is streamlining its system of voluntary correction programs designed to help retirement plan sponsors and administrators retain the favorable tax status of their plans, including simplifying the fee structure for voluntary submissions. The changes will make it easier for employee retirement plans to come into compliance with the law and to protect the retirement benefits of participating employees.

There are an estimated 40 million Americans employed by small businesses. Only 8 million of those workers are covered by a retirement plan.

“Retirement plan laws are complex and ever changing. We will do everything we can to help businesses stay up-to-date and within the rules,” said Carol Gold, director of IRS’s Employee Plans Division. “It’s easy for retirement plans to fall into noncompliance on any number of technical or administrative issues. Our priority is to offer plan sponsors and administrators a number of avenues to correct the plans.”

In Revenue Procedure 2003-44, the IRS revises and simplifies the Employee Plans Compliance Resolution System (EPCRS). EPCRS permits plan sponsors to correct technical and administrative problems with their plans and thereby retain the tax-favored status of their plans. Rev. Proc 2003-44 modifies and supersedes Rev. Proc. 2002-47.

There are three components of EPCRS:

- The Self-Correction Program (SCP), in which employers or plan administrators identify and correct problems with their plans without the requirement to notify the IRS.
- The Voluntary Correction Program (VCP), in which proposed corrections are submitted for IRS approval; once approval is granted, employers have written, reliable assurance that the IRS has approved their corrections.
- The Audit Closing Agreement Program (Audit CAP), under which plans may be corrected with IRS approval while the plan is under audit.

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In general, the changes made to Revenue Procedure 2002-47 include:

- expanding EPCRS to cover additional types of plans available to small businesses, such as SIMPLE IRA Plans;
- adding correction methods and reporting instructions for plans of small business (SEPs and SIMPLE IRA plans);
- providing sample formats for voluntary correction submissions;
- streamlining the VCP portion of EPCRS by consolidating all seven of the prior subcategories of voluntary correction procedures into a single voluntary correction program, thereby making it easier for businesses and plan administrators to use this option to correct problems;
- providing a fixed fee schedule for all voluntary submissions, based on the nature and complexity of the problem being brought into correction; and
- simplifying the amount of plan information a plan sponsor is required to include in a submission.

"A simplified system will provide an incentive for administrators to correct problems promptly. This is a more user-friendly process," said Joyce Kahn, who directs IRS's voluntary compliance program for employee retirement plans. "Administrators can bring their plans into compliance and keep them compliant. The changes will benefit everyone: employers and employees."

Administrators have been able to make submissions for voluntary corrections with IRS approval since 1992. Approximately 10,000 submissions for changes have been made in the past decade. Beginning in 1997, administrators were permitted to make self-corrections to plans without IRS approval.

For more information on the correction programs go to the Retirement Plans web site at www.irs.gov/ep, click on "More Topics" in the Topics section and go to "Correction."

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