

# PAYROLL DEDUCTION IRAs

## FOR SMALL BUSINESSES



*Payroll Deduction IRAs for Small Businesses* is a joint project of the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) and the Internal Revenue Service.

To view this and other EBSA publications, visit the agency's website at:  
**[dol.gov/agencies/ebsa](http://dol.gov/agencies/ebsa)**.

To order publications or speak with a benefits advisor, contact EBSA electronically at: **[askebsa.dol.gov](mailto:askebsa.dol.gov)**.

Or call toll free: **866-444-3272**

This material will be made available in alternative format to persons with disabilities upon request:  
Voice phone: **(202) 693-8664**  
TTY: **(202) 501-3911**

This booklet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Fairness Act of 1996.



**Want to help your employees save for retirement but don't want the responsibility of an employee benefit plan? Think about a payroll deduction IRA program.**

A payroll deduction individual retirement account (IRA) is an easy way for businesses to give employees an opportunity to save for retirement. The employer sets up the payroll deduction IRA program with a bank, insurance company, or other financial institution, and then the employees choose whether to participate. Employees decide how much they want deducted from their paychecks and deposited into the IRA. They may also have a choice of investments, depending on the IRA provider.

Many people not covered by an employer retirement plan could save through an IRA, but don't. A payroll deduction IRA at work can simplify the process and encourage employees to get started.

Under Federal law, individuals saving in a traditional IRA may be able to receive some tax advantages on the money they contribute, and the earnings on the contributions are tax-deferred. For individuals saving in a Roth IRA, contributions are after-tax and the earnings are tax-free.

Advantages of a payroll deduction IRA:

- Simple for employees to set up an IRA.
- Employees make all of the contributions. There are no employer contributions.
- Many employees find smaller, regular contributions a more manageable way to save.
- Low administrative costs.
- No filings with the government to establish the program or any annual reports.
- No minimum number of employees required.
- Program will not be considered an employer retirement plan subject to Federal reporting and fiduciary responsibility requirements as long as the employer keeps its involvement to a minimum.
- May help attract and retain quality employees.

This booklet provides an overview of payroll deduction IRA programs and is not a legal interpretation.

## **Establishing a Payroll Deduction IRA**

A payroll deduction IRA program is easy to set up and operate.

You, the employer, set up the payroll deduction IRA program with a financial institution, such as a bank or insurance company. Your employee opens either a traditional or a Roth IRA account (based on their eligibility and personal choice) with the financial institution and authorizes the payroll deductions. You withhold the payroll deduction amounts that the employee has authorized and promptly transmit the funds to the financial institution. After doing so, the employee and the financial institution are responsible for the amounts contributed.

As long as you keep your involvement to a minimum, the program will not be treated as an employer retirement plan under Federal law, and you will not be subject to the requirements for such plans, including annual filings with the government.

In setting up a program, you can limit the number of IRA providers to which you will remit contributions. You can designate as few as one IRA provider to receive contributions.

However, you must disclose any limits or costs associated with an employee's ability to transfer contributions to another IRA provider before the employee begins to participate in the program.

You need to remain neutral about the IRA provider. You cannot negotiate with an IRA provider to obtain special terms for your employees, exercise any influence over the investments the IRA provider makes or permits, or receive any compensation in connection with the IRA program except reimbursement for the actual cost of forwarding the payroll deductions.





You can:

- Encourage your employees to save for retirement by providing general information about the payroll deduction IRA program and other educational materials that explain why it is important to save, including the advantages of contributing to an IRA;
- Answer employees' questions about the payroll deduction program and refer inquiries to the IRA provider; and
- Provide informational materials written by the IRA provider, as long as the materials do not suggest you endorse them.

However, you should make clear that your involvement in the program is limited to collecting employee contributions and promptly sending them to the IRA provider.

## Operating a Payroll Deduction IRA

Generally, any employee who performs services for the business (or “employer”) can be eligible to participate. The decision to participate is up to the employee and an IRA may not be appropriate for everyone. The employees should understand that they have the same opportunity to contribute to an IRA outside the payroll deduction program and that you are not providing any additional benefit to employees who participate.

Each employee determines the amount deducted for contribution to an IRA. Employees are always 100 percent vested in (own) all of the funds in their IRAs.

Participant loans are prohibited. Employees can withdraw money any time, but withdrawals are subject to income taxes (except for certain distributions from nondeductible IRAs and Roth IRAs). If the employee is under age 59½, there may also be a 10 percent additional tax.

Employees’ contributions are limited to \$5,500 for 2018 and \$6,000 for 2019 (see [irs.gov/retirement](https://www.irs.gov/retirement) for annual updates). Additional “catch-up” contributions are permitted for employees age 50 or over. This special catch-up amount is limited to \$1,000 per year.

The employees control where their money is invested and they also bear the investment risk. The financial institution holding the IRA invests the funds. An employee may move the IRA assets from one IRA provider to another. You should make your employee aware that you don’t guarantee or promise any rate of return. The employer is merely acting as a conduit.

Your costs are low because the program is not subject to the government filing, administrative, and fiduciary requirements for employer retirement plans, such as 401(k) plans.

You may pay fees charged by the IRA provider for services connected with establishing and operating the payroll deduction process. You may pay your own internal costs (such as bookkeeping and overhead) for setting up and operating the program. However, the employee must pay the fees related to setting up and maintaining the IRA.



## Terminating a Payroll Deduction IRA

A payroll deduction IRA program can be terminated at any time. If you decide that a payroll deduction IRA program no longer suits your business needs, you simply notify the payroll department and your employees that you're terminating the program. You may need to notify the IRA provider(s) that you will no longer be making deposits. You don't need to give any notice to the IRS. Although your involvement will end, the employees can continue to save through their IRAs working directly with the IRA provider.

## Resources

To find this publication and more information on retirement plans, visit:

### ***The U.S. Department of Labor's Employee Benefits Security Administration***

Main site: [dol.gov/agencies/ebsa](https://dol.gov/agencies/ebsa)

Information for small businesses: [dol.gov/agencies/ebsa/employers-and-advisers/small-business](https://dol.gov/agencies/ebsa/employers-and-advisers/small-business)

Retirement saving information for employers and employees: [savingmatters.dol.gov](https://savingmatters.dol.gov)

### ***Internal Revenue Service***

Main site: [irs.gov/retirement](https://irs.gov/retirement)

Guidance for maintaining your payroll deduction IRA program: [irs.gov/retirement-plans/plan-sponsor/small-business-retirement-plan-resources](https://irs.gov/retirement-plans/plan-sponsor/small-business-retirement-plan-resources)

**In addition, the following jointly developed publications are available on the DOL and IRS websites or can be ordered electronically at [askebsa.dol.gov](https://askebsa.dol.gov) or by calling toll-free: 866-444-3272.**

- *Choosing a Retirement Solution for Your Small Business*, Publication 3998, provides an overview of retirement options available to small businesses.
- *SEP Retirement Plans for Small Businesses*, Publication 4333, describes a low-cost retirement savings option for small businesses.
- *SIMPLE IRA Plans for Small Businesses*, Publication 4334, describes a type of retirement plan designed especially for small businesses.
- *Profit Sharing Plans for Small Businesses*, Publication 4806, describes a flexible option for businesses to help employees save for retirement.
- *401(k) Plans for Small Businesses*, Publication 4222, provides detailed information about the establishment and operation of a 401(k) plan.
- *Adding Automatic Enrollment to Your 401(k) Plan*, Publication 4721, explains how to add automatic enrollment to your existing 401(k) plan.
- *Automatic Enrollment 401(k) Plans for Small Businesses*, Publication 4674, explains a type of 401(k) plan that allows small businesses to increase plan participation.

### ***For business owners with a plan***

- *Retirement Plan Correction Programs*, Publication 4224, briefly describes the IRS and DOL voluntary correction programs.

## **Related materials available from DOL**

DOL sponsors an interactive website – the Small Business Retirement Savings Advisor, available at [webapps.dol.gov/elaws/ebsaplan.htm](http://webapps.dol.gov/elaws/ebsaplan.htm) – that encourages small business owners to choose the appropriate retirement plan for their businesses and provides resources on maintaining plans.

### ***For employees***

- *Savings Fitness: A Guide to Your Money and Your Financial Future* (also in Spanish)
- *Taking the Mystery Out of Retirement Planning* (also in Spanish)
- *Top 10 Ways to Prepare for Retirement* (also in Spanish)
- *Women and Retirement Savings* (also in Spanish)

To view these publications, go to [savingmatters.dol.gov](http://savingmatters.dol.gov). To order publications or request assistance from a benefits advisor, contact EBSA at [askebsa.dol.gov](http://askebsa.dol.gov) or by calling toll free 866-444-3272.

## **Related materials available from the IRS**

### ***Publications***

- *Choose a Retirement Plan for Employees of Tax Exempt and Government Entities*, Publication 4484
- *Contributions to Individual Retirement Arrangements (IRAs)*, Publication 590-A
- *Distributions from Individual Retirement Arrangements (IRAs)*, Publication 590-B
- *Lots of Benefits*, Publication 4118 (also in Spanish, Vietnamese, Korean, Chinese and Russian)
- *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)*, Publication 560

To view these publications, go to [irs.gov/retirement](http://irs.gov/retirement) and click on “Forms & Publications.”





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