Goldilocks and Retirement Plan Contributions

2011 IRS Nationwide Tax Forums
TE/GE Employee Plans

www.irs.gov/retirement
Retirement Plan and Excise Tax Basics

Defined contribution plan
  – Benefit depends on amount of contributions and investment earnings

Defined benefit plan
  – Plan states benefit and employer must contribute to make that benefit happen
Too Much

Maximum contributions

- IRA
  - $5,000, plus $1,000 if age 50 or over
  - 6% excise tax on excess contributions

- Employer plans
  - SIMPLE IRA plan - $11,500, plus $2,500 if age 50 or over
  - 403(b) and 401(k) plan - $16,500, plus $5,500 if age 50 or over
  - 10% excise tax on nondeductible contributions

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Too Little

Funding requirements for money purchase pension and defined benefit plans

- 10% initial excise tax on unpaid amount

Employer matching contributions

- Loss of favorable tax status
Too Early

Generally, not until age 59 ½
10% early distribution tax

SIMPLE IRA plans
– 25% if within 2 years of participating

Exceptions differ for IRAs and qualified plans

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Too Late (Contributions)

Consequences:

– If not made by return due date
  Loss of deduction
  Potential loss of limit on annual additions
– SIMPLE IRA plans
  loss of tax favored status

Employee salary deferrals

– as soon as can be “reasonably segregated”
Too Late (Distributions)

IRA
  – Age 70 ½

Qualified Plan
  – Later of age 70 ½ or retire
  – If more than 5% owner – age 70 ½
Controlled Group

One business owns at least 80% of another business

Two or more businesses owned at least 80%

– By 5 or fewer persons, and
– Identical interests in any business owned by the group members > 50%

Affiliated service group

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Controlled Group

Who does my plan need to cover?

Family attribution rules
Spousal exceptions
Community property states – really?
What does this all mean?

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## Maximum Deductible Contributions (under age 50)

<table>
<thead>
<tr>
<th>Compensation</th>
<th>SIMPLE IRA</th>
<th>SEP/Profit-Sharing</th>
<th>401(k)</th>
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<td>$50,000</td>
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</tbody>
</table>

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Employers

W-2 employee and sole proprietor, businesses not part of a controlled group
- Both have 401(k) plans
- Can I participate in both plans?

W-2 employee for unrelated employer, independent contractor for another
- Participate in employer’s 401(k) + a SEP for self-employed income
- How are my contributions limited?
Resources

www.irs.gov/retirement
RetirementPlanQuestions@irs.gov
877-829-5500
Newsletters
Visit our booth
Keep Your Client’s Retirement Plan in Compliance