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A CRASH COURSE IN RETIREMENT PLAN CONTRIBUTIONS IN 3D

Tax Exempt and Government Entities
Employee Plans
2012 Nationwide Tax Forums

6/27/2012



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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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Who Must Participate in Your Plan?

SEP

SIMPLE IRA

401(k) and other “qualified plans”





SEP and SIMPLE IRA Compensation

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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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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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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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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





SEP Contribution Calculation

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For self-employed individuals:

- “Earned income” = net earnings from self-employment less:
 - $\frac{1}{2}$ of your SE tax, and
 - Contributions for yourself





SEP

Schedule C Owner

Schedule C income	\$100,000
- (10% contribution to employees)	<u>34,400</u>
= Sch C Net Income	\$ 65,600
- 1/2 SE tax	<u>4,029</u>
	\$ 61,571

What is the contribution to the owner?

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

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SEP

Schedule C Owner

Net Profit from Schedule C = \$100,000

– Prior to deduction for employer contributions

$\frac{1}{2}$ SE Tax = \$6,141

Maximum Contribution = lesser of:

– \$18,772 = $(\$100,000 - \$6,141) \times 20\%$

– \$62,500 = $\$250,000 \times 25\%$

– \$50,000

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





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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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SIMPLE IRA Contribution 2012 Limitations

Employee's salary deferrals are limited to the smaller 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





SIMPLE IRA 3% Match Calculation

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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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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





SIMPLE IRA

Schedule C Owner

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Net profit from Schedule C = \$20,000

- After deduction for any employer contributions

Less $\frac{1}{2}$ SE tax = \$1,228

Amount available = \$18,772

Maximum deferral = \$11,500

- Match = \$563, or
- 2% nonelective contribution = \$375





Compensation in a 401(k) Plan

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Know your plan's definitions

Different definitions of compensation for
different purposes

- testing
- to calculate contributions
- determine limits





401(k) Deferral Limit 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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Plan Contribution Limits

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§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 PS - \$20K comp





Plan Deduction Limits

IRC 404

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

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401(k) Match Calculation

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How does the employer 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 = $(\$250,000 \times 5\%) \times 50\% = \$6,250$





Maximum Contribution

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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





Maximum Contribution

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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





One Employee, Two Plans Unrelated Employers

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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





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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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	$\leq \$58,000$	full deduction up to your contribution limit
	$> \$58,000$ but $< \$68,000$	partial deduction
	$\geq \$68,000$ or more	no deduction
married filing jointly or qualifying widow(er)	$\leq \$92,000$	full deduction up to your contribution limit
	$> \$92,000$ but $< \$112,000$	partial deduction
	$\geq \$112,000$	no deduction
married filing separately	$< \$10,000$	partial deduction
	$\geq \$10,000$	no deduction





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

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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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Didn't Get It Right?

Use IRS correction program to fix:

- Missed contributions
- Omitted employees
- Skipped plan amendments

Easy, check-the-box forms

Low \$375 fee for SEPs or SIMPLE IRA plans





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Questions and Resources

- www.irs.gov/retirement
- RetirementPlanQuestions@irs.gov
- 877-829-5500
- Newsletters
- A Taxing Matter - Retirement

