SEP & SIMPLE IRA Plans: Strategies for Making Correct Contributions and Deductions
SEP Contributions

- Written allocation formula
- Contributions not required every year
- Based on first $265,000 of compensation
- Same % of compensation for every employee
- Elective deferrals prohibited
SIMPLE Contributions

• Elective deferrals permitted

• Employer contributions
  – Must be made each year
  – Choose between
    • 2% nonelective
    • 3% matching
Contribution Limitations

• SEP
  – Annual limitation: smaller of
    • $53,000
    • 25% of compensation

• SIMPLE
  – Elective deferrals
    • $12,500
    • $3,000 catch-up permitted
<table>
<thead>
<tr>
<th>Form</th>
<th>Description</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1040</td>
<td>U.S. Individual Income Tax Return</td>
<td>Deductions – Where?</td>
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</table>
### Adjusted Gross Income

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
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<tbody>
<tr>
<td>24</td>
<td>Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ</td>
</tr>
<tr>
<td>25</td>
<td>Health savings account deduction. Attach Form 8889</td>
</tr>
<tr>
<td>26</td>
<td>Moving expenses. Attach Form 3903</td>
</tr>
<tr>
<td>27</td>
<td>Deductible part of self-employment tax. Attach Schedule SE</td>
</tr>
<tr>
<td>28</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
</tr>
<tr>
<td>29</td>
<td>Self-employed health insurance deduction</td>
</tr>
<tr>
<td>30</td>
<td>Penalty on early withdrawal of savings</td>
</tr>
<tr>
<td>31a</td>
<td>Alimony paid b Recipient’s SSN</td>
</tr>
<tr>
<td>32</td>
<td>IRA deduction</td>
</tr>
<tr>
<td>33</td>
<td>Student loan interest deduction</td>
</tr>
<tr>
<td>34</td>
<td>Tuition and fees. Attach Form 8917</td>
</tr>
<tr>
<td>35</td>
<td>Domestic production activities deduction. Attach Form 8903</td>
</tr>
<tr>
<td>36</td>
<td>Add lines 23 through 35</td>
</tr>
<tr>
<td>37</td>
<td>Subtract line 36 from line 22. This is your adjusted gross income</td>
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</tbody>
</table>
Self-employed Contribution Calculations

- Form 1040, Line 28
- Includes only contributions to yourself
- Self-employment tax
- IRS Publication 560, Section 5
  - Tables and worksheets
Required Minimum Distributions

• Amount that must be withdrawn each year
• Applies to SEP and SIMPLE IRAs
• Age 70 1/2
• Procedures for more than one IRA
Prohibited Transactions

• Improper use of an IRA account
  – e.g., Borrowing money from an IRA

• Exemptions

• Consequence
  – Involved IRA assets now are income
  – Possible early withdrawal penalty
SIMPLE Recurring Errors

• Excluding eligible employees
• 60-Day notice failures
• Matching contribution failures
• Wrong definition of “Compensation”
• Salary deferrals – late deposits
SEP Recurring Errors

- Excluding eligible employees
- Wrong definition of “Compensation”
- Owner receiving a greater contribution
- Improperly allowing salary deferrals
- Allowing excess contributions
EMPLOYEE PLANS
COMPLIANCE RESOLUTION
SYSTEM

The
EPCRS
Menu

What’s
Your
Choice?

The impact of non-compliance left unchecked can be costly.

Preventive Maintenance – Fix Mistakes Immediately!!

<table>
<thead>
<tr>
<th></th>
<th>Audit CAP</th>
<th>Voluntary Correction</th>
<th>Self-Correction</th>
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<tbody>
<tr>
<td><strong>Cost of Correction</strong></td>
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<td><strong>IRS Fees</strong></td>
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<td><strong>Time Involved</strong></td>
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Fix-It: Allowing Excess Contributions

- **Find**
  - 25% of compensation/$53,000

- **Fix**
  - Two alternative methods permitted

- **Avoid**
  - Check allocations each year
Learn More…

- www.irs.gov/retirement
- Publication 560
- *Employee Plans News*