

SEP Plan Pitfalls (Use the IRS SEP Plan Fix-It Guide To Keep Your Clients Out Of Trouble)

Tax Exempt and Government Entities

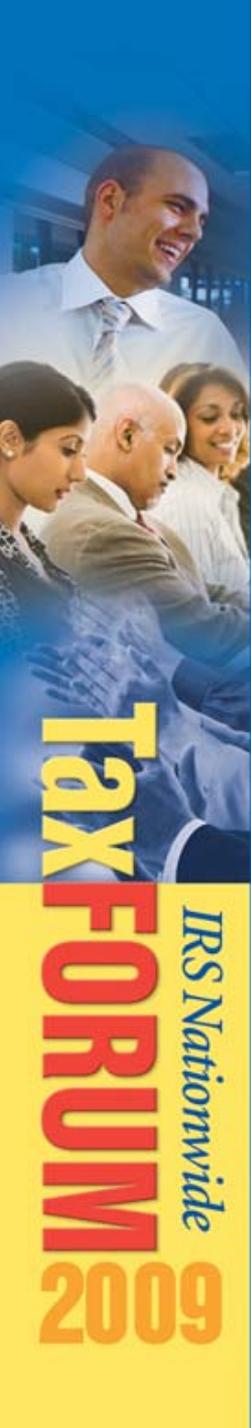
Employee Plans

2009 IRS Nationwide Tax Forum

SEP Fix-It Guide Introduction

- Find SEP Fix-It Guide @ www.irs.gov/ep
- Common mistakes
- Tips on:
 - Finding mistake
 - Corrective action/IRS Correction Program
 - Avoiding mistake
 - “More” information, including examples



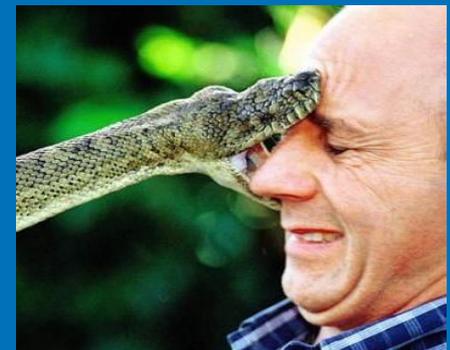


SEP Plan Overview

- What is a SEP?
- How is a SEP set up?
- Which employees may participate?
- What are the contribution requirements?
- What are the basic distribution rules?
- What are the filing requirements?

EPCRS Overview

- Components of EPCRS
 - Self-Correction Program (SCP)
 - No IRS contact or fee
 - Insignificant failures only
 - Voluntary Correction Program (VCP)
 - IRS approval of correction, \$250 fee
 - Audit Closing Agreement Program (Audit CAP)
 - Sanction based on percentage of taxes due if plan were disqualified. Ouch!



Issue #1 – Plan Amendment

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
1) Has your SEP been amended for current law? (More)	Determine if your Form 5305-SEP is the current revision (December 2004). (More)	EPCRS Adopt revised Form 5305-SEP. (More)	VCP Audit CAP (More)	Maintain regular contact with the company that sold you the plan. (More)

Issue #2 – Eligible Employees Participating



TAX FORUM
 IRS Nationwide
 2009

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
2) Are all eligible employees participating in the SEP? (More)	Review the section of your plan document concerning eligibility and participation. Check when employees are entering the plan. (More)	EPCRS Apply reasonable correction method that would place affected employees in the position they would have been in if there were no	SCP* VCP Audit CAP (More)	You should review the participation status of all employees at least once a year. (More)

Issue #3 – Only Business

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
3) Is the business that the SEP covers the only business that you own? (More)	You should identify any companies that you own or with which you have a financial relationship. (More)	EPCRS Corrective contribution. (More)	SCP* VCP Audit CAP (More)	Determine if you own any other businesses. (More)

Issue #4 – Compensation

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
<p>4) Are you determining each eligible employee's compensation using the definition in your SEP document? (More)</p>	<p>To determine if you are using the proper compensation for allocations, you'll need to review the plan document. (More)</p>	<p>EPCRS Correction is based upon the terms of the plan and other applicable information at the time of the mistake. (More)</p>	<p>SCP* VCP Audit CAP (More)</p>	<p>When calculating allocations, it is important for you to carefully review the plan terms to ensure that the correct amount of compensation is being considered. (More)</p>

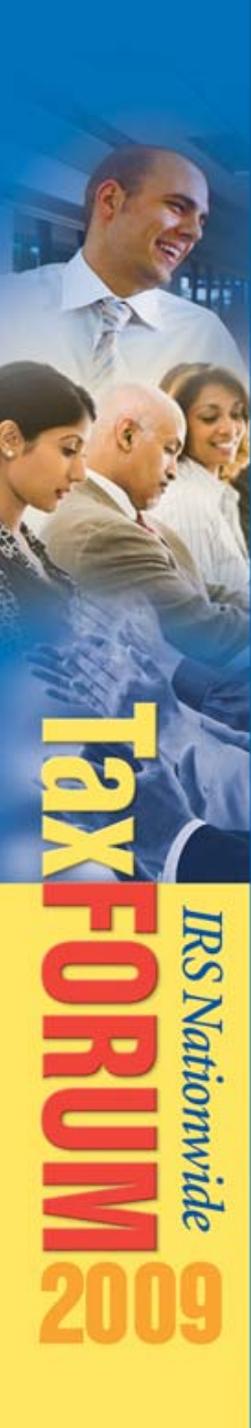


Issue #5 – Contribution Limits

-----Trends-----	-----Tips-----			
Potential Mistake	How to Find the Mistake	How to Fix the Mistake		How to Avoid the Mistake
		Corrective Action	Correction Program(s) Available	
5) Are SEP contributions to each employee's IRA limited as required by the Internal Revenue Code (Code)? (More)	Calculate 25% of each employee's compensation and compare the total contribution made for the employee to the lesser of that amount or the dollar limitation for that year (\$49,000 in 2009). (More)	EPCRS Correction for a failure to limit contributions allocated to employees is to either distribute or retain the excess amount. (More)	SCP* VCP Audit CAP (More)	After the initial calculation of allocations based on the terms of the plan, you should check to make sure none of the proposed allocations would violate the Code. (More)

Other Fix-It Guides and Resources

- 401(k) Fix-It Guide
- SIMPLE IRA Plan Fix-It Guide
- SARSEP Fix-It Guide
- Correcting Plan Errors web page
 - All can be found at www.irs.gov/ep

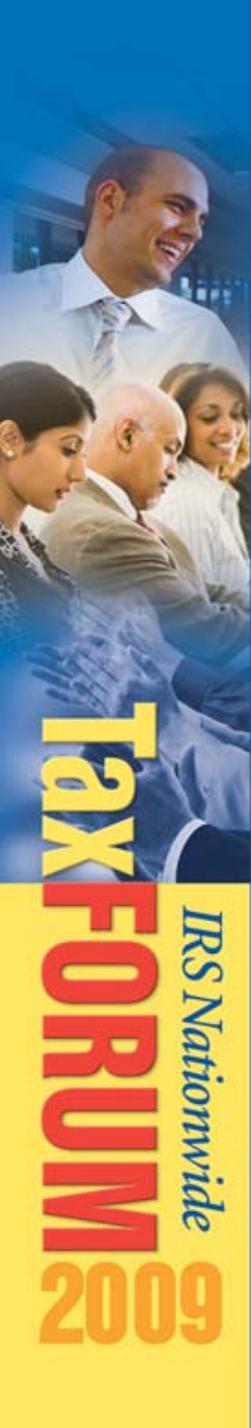


Retirement Plan Assistance

- www.irs.gov/ep
 - Includes pages dedicated to Fix-It Guides and Correcting Plan Errors
- (877) 829-5500
 - Customer Account Services
- RetirementPlanQuestions@irs.gov
- Newsletters



TAX FORUMS
IRS Nationwide
2009



- Be sure to attend our session on
Financial Distress and Retirement Plan
Distributions
 - Insert times
- Questions

