TAXLOGIC

January 18, 2002 **Vol. 1, No. 12**

We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home or office. We are competitively priced; in addition we offer a number of additional services as well as comprehensive information from our web site – http://www.taxlogic.com.

IRA, Keogh, SIMPLE, SEP

We touched on these topics in an earlier newsletter, but thought perhaps you would like more details.

IRA: The maximum contribution allowed for eligible individuals under age 50 for traditional and Roth IRAs will be raised to $3,000 in 2002, to $4,000 in 2005 and to $5,000 in 2008. Individuals who will be age 50 and over beginning in 2002 will be allowed to make additional "catch-up" contributions to their traditional IRAs or Roth IRAs of $500 for 2002 through 2005 and $1,000 for 2006 and after.

If you were covered by a retirement plan at work, your IRA deduction will not be reduced (phased out) unless your modified AGI is between:

. $34,000 and $44,000 for a single individual (or head of household),
. $54,000 and $64,000 for a married couple (or a qualifying widow(er) filing a joint return, or
. $-0- (no increase) and $10,000 for a married individual filing a separate return.

Early distributions from an IRA can be made free of the 10% penalty that would otherwise apply if the distributions are for medical expenses of a taxpayer, or the taxpayer's spouse or dependents, and the expenses exceed 7.5% of the taxpayer's AGI.

Keogh: Keogh plans are retirement plans that can only be set up by a sole proprietor or a partnership (but not a partner). They can cover self-employed persons, such as the sole proprietor or partners, as well as their regular employees.

The contribution limits are different for the two different types of Keogh plans: **the Defined Benefit Plan** and the **Defined Contribution Plan**. The defined Benefit Plan features the lesser of $135,000 or 100% or average income during the 3 highest earning years. The defined Contribution Plan may be in the form or "money purchase" or "profit sharing". The money purchase plan contribution limited to the lesser of $30,000 or 20% of net income (25% for employees). The profit sharing plan allows the lesser of $25,000 or 13.0435% of net income (15% or $25,000 for employees). There is also a way to establish a Keogh based on a combination money purchase/profit sharing plan which allows contributions limited to the lesser of $30,000 or 20% of net income.

In reality, the features and alternatives in a Keogh plan are quite complicated and there are some reporting requirements as well. A thorough study of Keoghs is recommended before jumping into a plan.

Simplified Employee Pension (SEP): Any business, whether a C Corporation, S Corporation, partnership, sole proprietorship, self-employed can establish a Plan. The employer can restrict individuals under 21 years of age, and some part-time workers under a defined salary limit from being eligible for the plan, union workers who have a contract under collective bargaining and employers can structure the plan to only allow eligibility to those who have worked 3 out of the last 5 years. The contribution to each individuals retirement account must be allocated in a non-discriminatory manner. An employee can receive up to 15% (25% starting 2002) of his pre-tax income into the plan up to a maximum of $25,000 per year (this is adjusted annually for inflation). Self-employed individuals can deduct a maximum of appropriately 13.05 of salary into the plan.

This type of retirement plan is the simplest type available for businesses and requires minimal reporting and disclosure.

Savings Incentive Match Plan for Employees (SIMPLE): Simple plans can be adopted by employers who employ 100 or fewer employees; have employees with at least $5,000 in compensation for any two previous years; and do not maintain another employer sponsored retirement plan. Elective contributions, of up to $6,500 for 2001 and $7,000 for 2002, may be made by employees to their Simple IRA, and the employee deferral can be matched by the employer. The employer is required to satisfy one of two contribution formulas:

1. The matching contribution formula requires the employer to generally match employee elective contributions on a dollar-for-dollar basis up to 3% of the employee's compensation, although the employer could elect a matching contribution of not less than 1% of each employee's compensation.

2. The 2% contribution option allows an employer to make a 2% of compensation non-elective contribution on behalf of each eligible employee, but no more than $150,000 can be taken into account for any employee. If this alternative is chosen, the employer has to notify employees of the change before the 60-day election period for the year.

No contributions other than these two types of contributions can be made to a Simple account. All contributions to an employee's Simple account have to be fully vested. Simple plans must be established between January 1 and October 1 of the plan year.

Next week will be discussing the other types of Employers Retirement Plans. For additional information on the ones we discussed today, please visit our site at http://www.taxlogic.com.