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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.

Fact: Today, the typical American family pays more in taxes than it spends on food, clothing, shelter and transportation combined. You need to learn how to enjoy the rewards of the tax relief. Take advantage of the different savings programs being offered today.

401(k), 403(b) and 457 and Other Employer Retirement Plans

An employer who wants to provide retirement benefits for employees will customarily establish a pension, profit sharing or stock bonus plan that qualifies for preferential tax treatment. This includes a tax exemption for the fund that is established to provide benefits, deductions by the employer for contributions made to fund, tax deferral for the employer for the employer's contributions and earnings thereon, and in some instances favorable tax treatment when benefits are paid.

Pensions Plans: There are basically two types of pension plans. One type, a "defined benefit" plan — promises specified benefits, typically in the form of a monthly retirement pension based on levels of compensation and years of service. Contributions to the plan are actuarially calculated to provide the promised benefits. A second type of pension plan is the so-called "money purchase" variety. With this type of plan — classified as a "defined contribution" plan — the employer promises a specific contribution on behalf of each participant (usually expressed as a percentage of compensation).

Profit-Sharing Plans. Employer contributions to a profit-sharing plan are ordinarily based on profits. The employer is not required to contribute any particular percentage of profits, but contributions must be substantial and recurring.

Annuity Plans. An annuity plan is a defined benefit plan funded through the direct purchase by the employer of an annuity contract or contracts. These plans are referred to as "403(B) Plans," or tax-sheltered annuity plans, which are provided for the public school system, an exempt educational charitable or religious organization, or with respect to its civilian faculty and staff, the Uniformed Services University of the Health Science. To qualify for special tax treatment, the arrangement must generally meet the same rules regarding nondiscrimination in coverage, contributions and benefits that apply to qualified plans.

Stock Bonus Plans and ESOPs. A stock bonus plan is a defined contribution plan that provides benefits similar to those of a profit-sharing plan and is generally subject to the same rules as those governing such a plan.

401(k) Plans. Under a "401(k) plan," employer contributions to the plan will not be included in the income of a participant because the employee has the option of taking the contribution in cash or having it paid to the plan (an elective contribution) or because the contribution coincides with a salary reduction arrangement. A 401(k) plan must generally be part of a profit-sharing or stock bonus plan that, in addition to meeting the general requirements of a qualified plan, must meet the special requirements summarized below.

1. It must give the participant the option of having the employer contribute amounts to the plan or receiving those amounts in cash.

2. It must prohibit distribution of amounts attributable to elective contributions earlier than one of the following events: (a) separation from service, death, or disability; (b) termination of the plan without establishment of successor plan; (c) attainment of age 59 ½; (d) a corporate employer's disposition of substantially all of its assets or its interest in a subsidiary if the participant continues in the service of the purchaser or subsidiary; or (e) hardship.

457 Plans. This plan is available to state and local governments and other tax exempt organizations, except for churches and qualified church-controlled organizations. The plan or arrangement must limit the amount that may be deferred for any tax year to the lesser of $8,500 in 2001 or 33.3% of the participants compensation that is currently includible in gross income.

The new tax law increases the amounts that may be contributed on a pretax basis to 401(k) salary deferral plans, 403(b) tax-sheltered annuity plans, SEP plans, Simple plans and 457 deferred compensation plans. For the year 2002, the 401(k), 403(b) and SEP limit goes to $11,000 (up from $10,500). The Simple plan goes from $6,500 to $7,000 limit for the year 2002. 457 plans go from $8,500 to $11,000. The new law also increases the percentage limit (currently 33.3% of compensation) plans to 100% for 2002 and after.

The limit on annual additions (generally employer and employee contributions and forfeitures) to defined contribution plans, such as 401(k) and profit sharing plans, is, for 2001, the lesser of 35% of compensation or $35,000. Under the new law, the dollar limit will increase to $40,000 for years beginning after 2001.

The maximum annual benefit that can be funded under a defined-benefit pension plan for 2001 is the lesser of 100% of average compensation or $140,000. The dollar amount will rise to $160,000 for years ending after December 31, 2001.

The amount of a participant's compensation that can be taken into account under a plan rises from $170,000 for 2001 to $200,000 for 2002 and after. The amount will be inflation-adjusted in minimum of $5,000 increments.

Employer Deduction Limit. Employer deductions for contributions to tax-qualified retirement plans are subject to limits. In the case of a stock bonus or profit sharing plan, the deduction limit is 15% of the compensation of employees covered by the plan. For purposes of the deduction limit, employee elective deferrals to a 401(k) plan are currently counted as employer contributions and, thus, are subject to the limit. The new law provides that 401(k) elective deferrals are not to be counted as employer contributions subject to the deduction limit, effective for tax years, starting after 2001. Moreover the 15%-of-compensation limit will rise to 25% for years starting after 2001.

The Economic Growth and Tax Relief Reconciliation Act of 2001 offers significant tax reductions for most taxpayers. But many of those cuts are phased in over a number of years. We would be happy to help you with your planning or questions. Please visit us at http://www.taxlogic.com.