



IRS  
Nationwide  
**TaxFORUM**

# 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





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# SIMPLE Contributions

- Elective deferrals permitted
- Employer contributions
  - Must be made each year
  - Choose between
    - 2% nonelective
    - 3% matching





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# Contribution Limitations

- SEP
  - Annual limitation: smaller of
    - \$53,000
    - 25% of compensation
- SIMPLE
  - Elective deferrals
    - \$12,500
    - \$3,000 catch-up permitted





# Deductions – Where?

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Form

**1040**

Department of the Treasury—Internal Revenue Service (99)  
**U.S. Individual Income Tax Return**

**SCHEDULE C  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

**SCHEDULE F  
(Form 1040)**

Department of the Treasury  
Internal Revenue Service (99)

Form

**1065**

Department of the Treasury  
Internal Revenue Service

## U.S. Return of Partnership Income

For calendar year 2015, or tax year beginning \_\_\_\_\_, 2015, ending \_\_\_\_\_, 20\_\_\_\_\_.

▶ Information about Form 1065 and its separate instructions is at [www.irs.gov/form1065](http://www.irs.gov/form1065).

Form

**1120**

Department of the Treasury  
Internal Revenue Service

## U.S. Corporation Income Tax Return

For calendar year 2015 or tax year beginning \_\_\_\_\_, 2015, ending \_\_\_\_\_, 20\_\_\_\_\_.

▶ Information about Form 1120 and its separate instructions is at [www.irs.gov/form1120](http://www.irs.gov/form1120).

Form

**1120S**

Department of the Treasury  
Internal Revenue Service

## U.S. Income Tax Return for an S Corporation

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.

▶ Information about Form 1120S and its separate instructions is at [www.irs.gov/form1120s](http://www.irs.gov/form1120s).





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# Deductions - Form 1040

## Adjusted Gross Income

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





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# 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





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# SIMPLE Recurring Errors

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





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# SEP Recurring Errors

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





ATTENTION:  
PLAN  
SPONSORS!

**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!!

	Audit CAP	Voluntary Correction	Self- Correction
Cost of Correction			
IRS Fees			\$0
Time Involved			
Result			

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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





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# Learn More...

- [www.irs.gov/retirement](http://www.irs.gov/retirement)
- Publication 560
- *Employee Plans News*

