Don’t Forget Your Retirement!

Article Highlights:

- Simplified Employee Pension Plans (SEP)
- Qualified Plan (Keogh)
- Savings Incentive Match Plan for Employees (SIMPLE Plan)
- Individual 401(k) Plan
- Small Employer Pension Startup Credit

Even though retirement may be years away, and it may not be the most pressing issue on your mind these days, don’t forget your retirement contributions, especially with generous government incentives involved.

There are a variety of retirement plans available to small businesses that allow the employer and employee a tax-favored way to save for retirement. Contributions made by the owner on his or her own behalf and for employees can be tax-deductible. Furthermore, the earnings on the contributions grow tax-free until the money is distributed from the plan. Here are some retirement plan options:

- **Simplified Employee Pension Plan (SEP)**. This plan was designed to avoid the complications of a qualified plan. Contributions to the plan are held in the beneficiaries’ IRA accounts; hence, the title “simplified.” Deductible contributions for 2015 are limited to the lesser of 25% of the participant’s compensation (up to $265,000) or $53,000. A SEP can be established and funded after the close of the year.
- **Qualified Plan (Keogh)**. Generally, the rules surrounding a Keogh are more complex. This type of plan may include a discretionary contribution profit sharing plan or a mandatory contribution money purchase plan, or a combination of these. SEP plans are favored over Keogh plans by most self-employed individuals. For 2015, deductible contributions are limited to the lesser of 25% of the participant’s compensation (up to $265,000) or $53,000. These plans must be established before the end of the tax year, but contributions can be made afterwards.
- **Savings Incentive Match Plan for Employees (SIMPLE Plan)**. Under this plan, the business owner takes a deduction, and employees receive a salary deferral. For 2015, the contribution limit is $12,500 (per employer or employee), with an additional catch-up contribution limit of $3,000 for participants aged 50 or older. The employer can match the contribution up to 3% of compensation or make a non-elective contribution of 2% of compensation.
- **Individual 401(k) Plan**. The individual 401(k) plan is similar to the traditional 401(k) plan with added benefits for the small business owner. For 2015, the owner can contribute and deduct up to 25% of compensation plus an additional $18,000 salary deferral, up to a $53,000 maximum $59,000 for those who are age 50 and over). For employees, the contribution and salary deferral limit is $18,000, with an additional $6,000 catch-up contribution available to those aged 50 or over. Employers can match employee contributions.

If you do establish a new qualified pension plan for your business, you may be entitled to the “small employer pension startup credit.” The credit is equal to 50% of administrative and retirement-related education expenses for the plan for each of the first three plan years, with a maximum credit of $500 for each year. Plan-related expenses in excess of the amount of the credit claimed are generally deductible as ordinary expenses of the business.

The first credit year is the tax year that includes the date the plan becomes effective, or, electively, the preceding tax year. Examples of qualifying expenses include the costs related to changing the employer's payroll system, consulting fees, and set-up fees for investment vehicles.

If you would like assistance in selecting a retirement plan for your business or to explore the tax benefits relevant to your particular circumstances, please give this office a call.