



What is a SIMPLE IRA plan?

A SIMPLE IRA plan is a type of employer-sponsored retirement plan available for small employers. Like a 401(k) plan, employees can save for retirement on a tax-deferred basis through payroll deduction. Unlike a 401(k) plan, SIMPLE IRAs are exempt from compliance testing and reporting requirements making this type of plan appealing for certain employers.

How much can employees contribute?

Under a SIMPLE IRA, employees can contribute up to \$13,500 (2020 and 2021) per year on a tax-deferred basis. In addition, employees who are age 50 or older can make a catch-up contribution of up to \$3,000 (2020 and 2021). These limits are indexed annually.

Note: *If an individual participates in a SIMPLE and another employer's 401(k) or 403(b) plan during the same calendar year, certain limits apply on a combined basis.*

Can employees make Roth contributions under a SIMPLE IRA?

No; Roth contributions cannot be made under a SIMPLE IRA.

Does the employer have to make contributions under a SIMPLE IRA plan?

Yes; the employer must make either a matching or nonelective contribution (similar to a profit sharing contribution).

- If the employer elects to make a matching contribution, the employer generally must match 100% of employee contributions up to 3% of compensation.
- If the employer elects to make a nonelective contribution, the employer must make a contribution of 2% of compensation for all eligible employees (regardless of whether they make contributions under the plan).

What compensation is used to determine employer contributions?

In general, the employee's gross compensation must be used. In other words, the plan cannot exclude certain types of compensation such as bonuses or commissions.

Are employer contributions subject to a vesting schedule?

No; all contributions are 100% vested.

Which employees are eligible?

All employees who are expected to earn at least \$5,000 during the current year and have earned at least \$5,000 during any 2 prior years are eligible. The employer may use less restrictive eligibility requirements, but not more.

Can the plan exclude any employees?

The only classes of employees an employer may exclude are employees covered under a collective bargaining agreement (i.e. union employees) and nonresident aliens.

Which employers can sponsor a SIMPLE IRA plan?

In general, only employers with 100 employees or less can sponsor a SIMPLE IRA plan.

Can an employer sponsor a SIMPLE and another retirement plan?

No; an employer cannot maintain a SIMPLE IRA and another qualified plan (ex. 401(k) or profit sharing plan) during the same calendar year.

When can an employer adopt a SIMPLE IRA?

A SIMPLE IRA plan must be in place for at least 3 months during a calendar year, so new plans must be adopted no later than October 1 (all SIMPLE IRAs operate on a calendar year basis).

How does an employer adopt a SIMPLE IRA?

There are three basic steps to adopting a SIMPLE IRA plan. First, the employer must execute a written agreement. Second, the employer must provide a notice to eligible employees. Lastly, the employer must open SIMPLE IRA accounts for each eligible employee.

What document can be used for the written agreement?

The IRS has two model forms that can be used (Forms [5304](#) and [5305](#)). Many investment companies and banks also offer documents. Regardless of the document used, there are very limited options under this type of plan.

What are the employee notice requirements?

In general, the employer must provide a notice to all eligible employees by November 2nd of each year for the upcoming year including certain information about the plan such as how employees can make (or change) deferral elections and the



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type of employer contribution that will be made (i.e. matching or nonelective contributions), along with other information.

The rules regarding the timing of the notice are different for new SIMPLE IRA arrangements.

When do contributions have to be funded?

Generally, employee contributions must be funded as soon as the amounts can reasonably be segregated from the general assets of the employer (but no later than 30 days after the amounts were withheld). Most plans can satisfy this requirement by funding contributions within 7 business days following the date the amounts were withheld.

Employer contributions must be funded by the due date of the employer's tax return (including extensions).

When can distributions be made from a SIMPLE IRA?

SIMPLE IRAs are subject to the same general restrictions as traditional IRAs. In other words, distributions can be made at any time (at the election of the IRA owner). Distributions prior to attainment of age 59 ½ are subject to the 10% additional income tax for early withdrawals. If the distribution occurs within the first 2 years of participation, this additional tax is increased to 25%.

SIMPLE IRAs can be rolled over from one SIMPLE IRA to another at any time.

SIMPLE IRAs can only be rolled over to a qualified plan (or other IRA) after two years of participation.

Can employees take loans from SIMPLE IRA accounts?

No; loans are not available in SIMPLE IRAs.

Can a SIMPLE IRA plan be maintained on a fiscal year basis?

No; as mentioned above, SIMPLE IRA plans must operate on a calendar year basis. This is true regardless of the employer's tax year.

What happens if an employer goes over the 100 employee limit?

There is a grace period that applies in this situation. The employer is treated as having satisfied the "100-employee" requirement for the two years following the year in which the employer last satisfied this limitation.

If an employer has other related companies (i.e. they are members of a controlled group), can they still establish a SIMPLE IRA plan?

It depends. When companies are members of a controlled group, they are treated as a "single employer" for plan purposes so all employees of the employer (i.e. the controlled group) must be considered. This is true for determining both eligibility of an employer to sponsor a SIMPLE IRA (i.e. the 100-employee limit) and eligibility of employees to participate in the SIMPLE IRA.

Where can I learn more about SIMPLE IRAs?

To learn more about SIMPLE IRAs, please contact your CPA and/or financial advisor. In addition, the IRS has helpful information available on their website at www.irs.gov/Retirement-Plans/Plan-Sponsor/SIMPLE-IRA-Plan.