

TAX-PLANNING REFERENCE SHEET

for Small-Business and Individual Clients

Many tax advisors are contacted by their small-business clients to determine which employer-sponsored plan may provide the greatest tax advantage:

- SEP-IRA
- SIMPLE IRA
- Individual(k)

On the other hand, their individual clients also may need assistance to determine eligibility, contribution amounts, and distributions for a traditional IRA or a Roth IRA.

This reference sheet provides information, insight, and examples that can help both your small-business and individual clients.

SEP-IRA

A SEP-IRA may be appropriate for employers with or without employees. A SEP-IRA does not require a third-party administrator, so administrative costs are low, and the employer can potentially make a significant contribution. Because most plans require the employer to contribute the same percentage of compensation to all eligible employees, a SEP-IRA may not be desirable for employers with employees other than themselves.

	2020
Contribution Limits: Employer	Lesser of 25% of compensation or \$57,000
Compensation Cap	\$285,000
Contribution Due Dates: Employer	Tax-return due date (including extensions)
Plan Establishment Deadline	Tax-return due date (including extensions)

Example

Jack and Jill, spouses, are owners of their corporation, and they have no employees. Jack is age 52 and has \$150,000 in W-2 compensation. Jill is age 48 and has \$50,000 in W-2 compensation. The goal is to contribute as much as possible to a retirement plan without incurring administrative costs. The owners establish a SEP-IRA plan in 2020 and make the following contributions:

	Employee Deferral	Age 50+ Catch-Up	Employer Contribution	Total
Jack	N/A	N/A	\$37,500	\$37,500
Jill	N/A	N/A	\$12,500	\$12,500

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SIMPLE IRA

A SIMPLE IRA may be appropriate for small-business owners with 100 employees or fewer. In many cases, small-business owners want to establish a retirement plan for their employees, but they are looking for low administrative costs and would prefer a smaller employer contribution percentage. A SIMPLE IRA does not require a third-party administrator; it is funded primarily by employee salary deferrals, and it requires only a modest employer contribution.

		2020
Contribution Limits	Employee Salary Deferral	Lesser of 100% of compensation or \$13,500 (plus age 50 and older catch-up of \$3,000)
	Employer	Dollar-for-dollar up to 3% of compensation or 2% non-elective to all eligible employees
Compensation Cap		\$285,000 (2% non-elective method only)
Contribution Due Dates		According to IRS rules, an employer must make salary-reduction contributions to the financial institution maintaining an employee's SIMPLE IRA no later than the close of the 30-day period following the last day of the month in which amounts would otherwise have been payable to the employee in cash.
	Employee Salary Deferral	The Department of Labor requires plans with fewer than 100 participants to deposit salary-reduction contributions no later than the seventh business day following withholding by the employer.
	Employer	Tax-return due date (including extensions)
Plan Establishment Deadline		January 1 through October 1

Example

An employee at ABC Printing Company, Inc., is eligible to participate in a SIMPLE IRA plan. The 54-year-old employee earns \$45,000 in W-2 wages in 2020 and wants to contribute the maximum amount. The following contributions can be made to the SIMPLE IRA account:

Employee salary-deferral contribution:	\$13,500
Employee salary-deferral catch-up contribution:	+ \$3,000
Total salary deferral:	\$16,500
Employer 3% match ($\$45,000 \times 3\%$):	+ \$1,350
Total contributions to SIMPLE IRA:	\$17,850

Traditional and Roth IRAs

	Traditional IRA	Roth IRA
Contribution Eligibility	<ul style="list-style-type: none"> • Earned compensation 	<ul style="list-style-type: none"> • Earned compensation • Based on taxpayer's modified adjusted gross income (MAGI) and filing status
Deduction Eligibility	Depends on filing status, MAGI, and active participant status	No tax deduction because it's funded with after-tax dollars
Contribution Limits (Aggregate Annual Contribution of Traditional IRA plus Roth IRA)		
2020		\$6,000
Age 50 and Older Catch-Up		\$1,000
Required Minimum Distributions (RMDs)		
When	No later than April 1 of the year following the year of attainment of age 72	No required minimum distributions (RMDs) for Roth IRA holder; RMDs apply to a beneficiary of a Roth IRA who elects lifetime payments
Calculation		
Deferred Annuity	(December 31 of prior year value plus actuarial present value of additional benefits, if applicable) ÷ life expectancy factor	
Other Investment Vehicles	(December 31 of prior year value) ÷ life expectancy factor	
Penalty	50% excise tax on amount not taken	

Example (Aggregation of traditional IRA and Roth IRA contributions)

A 40-year-old client is eligible to make a deductible traditional IRA contribution and a Roth IRA contribution. The client contributes \$3,000 to his traditional IRA and \$3,000 to a Roth IRA. For 2020, the total aggregate limit of \$6,000 has been met with contributions to two types of IRAs.

Individual(k)

An individual(k) is a 401(k) plan that may provide business owners a greater tax benefit than a SIMPLE IRA or a SEP-IRA. Other benefits include high contribution limits and loan features. Individual(k) plans are available to “owner-only” businesses, which means that it is generally available to employee-owners and their spouses, including sole proprietors and partners in a partnership.

		2020
Contribution Limits	Employee Salary Deferral	Lesser of 100% of compensation or \$19,500 (plus age 50 and older catch-up of \$6,500)
	Employer—Profit Sharing	Lesser of 25% of compensation or \$57,000
	Total Cannot Exceed	\$57,000 (plus age 50 and older catch-up of \$6,500, so \$63,500 if age 50 or older)
Compensation Cap		\$285,000
Contribution Due Dates	Employee Salary Deferral	Earliest date employer is able to segregate amounts from its general assets, but in no event later than the 15 th day of the month following the month of deferral
	Employer	Tax-return due date (including extensions)
Plan Establishment Deadline		End of business tax year (usually December 31)

Example

Jack and Jill, spouses, are owners of their corporation, and they have no employees. Jack is age 52 and has \$150,000 in W-2 compensation. Jill is age 48 and has \$50,000 in W-2 compensation. The owners establish an individual(k) plan in 2020 and make the following contributions:

	Employee Deferral	Age 50+ Catch-Up	Employer Contribution	Total
Jack	\$19,500	\$6,500	\$37,500	\$63,500
Jill	\$19,500	N/A	\$12,500	\$32,000

For additional information about retirement plans for small businesses, contact our Pacific Life Retirement Strategies Group at: (800) 722-2333, ext. 3939, in New York, (800) 748-6907, ext. 3939, or send an email to RSG@PacificLife.com.

For tools and calculators that may help you talk to clients about tax planning, go to annuities.pacificlife.com.

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