

Is a SIMPLE IRA Right for Your Business?

A look at this easy-to-administer retirement program.

Provided by David H. Smith

Do you want a *simple* retirement plan? A plan you can implement easily as an independent contractor or small business owner, without a lot of paperwork? A SIMPLE IRA may be the answer.

A SIMPLE IRA plan gives you a tax break, while giving you and your employees a way to build retirement savings. True to its name, it requires no annual filing of Form 5500 with the IRS, which is typical for many other types of small business retirement plans. SIMPLE IRA plans are often set up using IRS Forms 5304-SIMPLE or 5305-SIMPLE.¹

If you work solo, a SIMPLE plan could really help your retirement saving effort. Frustrated at the annual ceiling on Roth or traditional IRA contributions that lets you save only a few thousand dollars a year? Well, you can direct up to \$12,500 per year into a SIMPLE IRA, \$15,500 if you are 50 or older.¹

SIMPLE IRA contributions are made with pre-tax dollars, so they are 100% deductible. Just like other IRAs, a SIMPLE IRA allows tax-deferred growth of invested assets.²

How does a SIMPLE IRA plan work when you have employees? Each one of your employees gets their own IRA as part of the plan, with the same high annual contribution limits noted above. As an employer, you must contribute to their IRAs each year in one of two ways (and you must inform them which approach you will take for the coming calendar year):

*You can elect to match their contributions, dollar-for-dollar, to a limit of 3% of their annual salaries. (If you like, you can set this limit as low as 1%, but you can only lower the limit from the standard 3% in two years out of any five-year period.)^{1,2}

*Or, you can just make a non-elective contribution of 2% of each employee's salary to each employee's plan. If you choose this option, you must make these 2% contributions whether or not the employee makes any plan contributions.^{1,2}

Employee contributions to a SIMPLE IRA are always 100% vested, and employees are free to make their own investment decisions. As the accounts are IRAs, the money saved and invested may be held in a variety of investment vehicles offered by particular plan vendors.¹

What does an employee have to do to be eligible for the plan? Each employee must meet two simple compensation tests. One, will that employee receive at least \$5,000 in compensation from your business this year? Two, did he or she receive \$5,000 or more in compensation from

your business during any of the two prior years? If both those tests are met, that employee can participate in a SIMPLE IRA plan.¹

Do SIMPLE IRAs have any shortcomings? Yes, they do; no small business retirement plan is perfect. An employer must always make contributions to a SIMPLE IRA, year-in and year-out. Plan participant loans are also prohibited from SIMPLE IRAs, which is not the case with many other retirement plan accounts. That said, there is much more to like about SIMPLE IRAs than there is to dislike.²

Why not make things SIMPLE? Look into a SIMPLE IRA plan for your business, your employees, and yourself. Sole proprietorships, partnerships, and corporations all have them – for great reasons.

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Citations.

1 - [irs.gov/retirement-plans/plan-participant-employee/who-can-participate-in-a-simple-ira-plan](https://www.irs.gov/retirement-plans/plan-participant-employee/who-can-participate-in-a-simple-ira-plan) [3/15/16]

2 - [irs.gov/retirement-plans/choosing-a-retirement-plan-simple-ira-plan](https://www.irs.gov/retirement-plans/choosing-a-retirement-plan-simple-ira-plan) [7/28/16]