



Retirement Plans

Tax and Business Update

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IRAs

For 2016 and 2017, IRA contributions are allowed up to the lesser of:

- 1) \$5,500 (\$6,500 if age 50 or older) or
- 2) 100% of the individual's compensation.

Compensation includes wages, salaries, other amounts derived from or received for personal services actually rendered (including self-employment income) and alimony.

For married individuals filing a joint return, IRA contributions can be made for each spouse if the combined compensation of both spouses is at least equal to the contributed amount.

Accessing Retirement Funds Before Age 59½

Retirement plan distributions received before age 59½ are subject to a 10% penalty tax (25% for some SIMPLE IRA distributions). However, the following distributions are generally not subject to the penalty (but are subject to income tax):

- Because of disability or following death.
- From an employer retirement plan (not an IRA) after separation from service and in or after the year the taxpayer reaches age 55.
- Made as part of a series of substantially equal periodic payments.
- To pay unreimbursed medical expenses that exceed 10% (7.5% if taxpayer or spouse is at least age 65) of adjusted gross income (AGI).
- To pay medical insurance when unemployed (IRAs only).
- To pay higher education (college) costs (IRAs only).
- To pay up to \$10,000 of first-time home expenses (IRAs only).

IRAs—Traditional vs. Roth		
	Traditional	Roth
Contributions:		
Limit, under age 50	\$ 5,500 (2016 and 2017)	\$ 5,500 (2016 and 2017)
Limit, age 50 or older	\$ 6,500 (2016 and 2017)	\$ 6,500 (2016 and 2017)
Deductible	Yes, but may be limited if taxpayer (or spouse) covered by employer retirement plan.	No
Income (AGI) limits:	No AGI limit on nondeductible contributions. Limits on deductible contributions only apply if covered by an employer plan.	Yes
Married filing joint (covered spouse)	\$ 98,000 - 118,000 (2016) 99,000 - 119,000 (2017)	\$184,000 – 194,000 (2016) 186,000 – 196,000 (2017)
Married filing joint (non-covered spouse)	184,000 – 194,000 (2016) 186,000 – 196,000 (2017)	184,000 – 194,000 (2016) 186,000 – 196,000 (2017)
Single, Head of Household	61,000 – 71,000 (2016) 62,000 – 72,000 (2017)	117,000 – 132,000 (2016) 118,000 – 133,000 (2017)
Maximum age	70½	No age limit.
Distributions:		
Taxation	All ordinary income (unless nondeductible contributions made).	Nontaxable if qualified distribution.
Year distributions must begin	Year after taxpayer reaches age 70½.	Not required until account owner dies.
10% penalty for taxable distributions before age 59½	Yes, subject to certain exceptions.	Yes, subject to certain exceptions.

Small Business Retirement Plans

For small business, SEPs and SIMPLE IRAs are two of the most popular retirement plan options.

SEP. A simplified employee pension (SEP) plan is a written arrangement that allows an employer to make contributions to IRAs established by or on behalf of each qualifying employee.

SIMPLE IRA. A savings incentive match plan for employees (SIMPLE) IRA is a written salary reduction arrangement under which an eligible employee may elect to have the employer contribute part of each paycheck to an IRA (referred to as a SIMPLE IRA). An employer that establishes a SIMPLE IRA must make either matching or nonelective contributions.

Tax Credit for Start-Up Expenses

- A nonrefundable credit of up to \$500 per year is available for the administrative and retirement-education expenses of adopting a new qualified defined-benefit or defined-contribution plan, or a SIMPLE IRA or SEP.
- The credit applies to 50% of the first \$1,000 of qualified expenses for each of the first three years of the plan.
- A small employer is one that did not employ, in the preceding year, more than 100 employees with compensation of at least \$5,000. Additionally, the plan must cover at least one nonhighly compensated employee.

⚠️ Caution: A plan established by a sole proprietor with no employees does not qualify for the credit since it would not cover any nonhighly compensated employees.

Notes

SEPs vs. SIMPLE IRAs		
	SEP	SIMPLE IRA
Available to	Generally, any business.	Small employers with 100 or fewer employees earning at least \$5,000 in previous year.
Deadline to establish	Due date, including extensions, of employer's tax return for year the plan is established.	Generally, October 1 of the year to which the plan first applies.
Employee age and service requirement¹	Age 21 or older. Any service in last three out of five years and compensation of at least \$600 for 2016 and 2017.	All employees earning at least \$5,000 in any two prior years and expected to earn at least \$5,000.
Vesting	100% immediate vesting.	100% immediate vesting.
Annual employer contribution	Discretionary.	Can limit to matching contributions.
Deductible employer contribution limit	25% ² of employee compensation up to \$265,000 for 2016 and \$270,000 for 2017 per employee.	3% of compensation match or 2% of compensation (up to \$265,000 for 2016 and \$270,000 for 2017) nonelective contribution.
Employee elective deferral limits	N/A	Lesser of 100% of compensation or \$12,500 for 2016 and 2017. For employees age 50 or over at year-end, the limit is increased to \$15,500 for 2016 and 2017.

¹ Employers can choose less, but not more, restrictive requirements.
² For self-employed person, 20% of net self-employment income.



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