NATIONAL RETIREMENT SERVICES, INC.

2014 TAX PLANNING: NEW OR REDESIGNED RETIREMENT PLANS

It's that time of year when we anticipate the pending Holiday Season and the New Year. It is also the right time of year for estimating anticipated 2014 taxable income and considering ways of reducing the amount of associated income taxes. Establishing a new retirement plan or redesigning an existing retirement plan may be an advantageous move.

New Retirement Plan

If a business has no retirement plan, one can still be considered for 2014, especially if the year involves an otherwise large taxable income. A businesses owner without a 401(k) plan may want to consider one, particularly if it will include a provision for discretionary profit sharing contributions. The profit sharing contributions can be as large as 25% of the plan participants' compensation. On top of that, employee salary deferrals up to $17,500 ($23,000 if age 50 or older) are available to each participant in addition to the allocated profit sharing contribution, as long as the total does not exceed 100% of the individual's compensation or $52,000 ($57,500 if age 50 or older). The plan design dictates how employer profit sharing contributions are allocated among participants and a variety of options are available. Demographics of the covered employee group play a large role in this design process. For employers with relatively steady income and a need for deduction levels higher than those mentioned above, a defined benefit plan, or a combination defined benefit plan plus a 401(k) plan may be the answer.

Small business owners with 100 or fewer employees are generally eligible for up to $1,500 in tax credits during the first three years of the plan. The annual credits are 50% of plan costs or $500, whichever is smaller, for each of the first three years. The plan must cover at least one non-highly compensated (a non-owner earning under $115,000 during the plan year that began in 2013) and the plan must be the first retirement plan offered by the employer during the three tax years preceding its adoption.

Existing Plan Redesign

Employers who have SEP or SIMPLE plans may want to consider replacing them with a 401(k)/profit sharing plan so that the plan may require minimum service periods before a participant becomes fully vested in employer contributions. Employers who already have 401(k) plans may want to consider a safe harbor employer contribution to avoid testing salary deferrals for discrimination. As mentioned above, an existing 401(k) plan can be enhanced by adding a profit sharing feature, adding Roth salary deferrals, or by changing the way that employer profit sharing contributions are allocated. If total tax deductions are less than ideal, the employer can consider adding a defined benefit plan. "Combo plans" such as these are subject to aggregate deduction limits which generally limit profit sharing contributions to 6% of compensation. Defined benefit limits are generally much higher than defined contribution plans, particularly if covered employees include older, higher paid employees or owner employees.

Existing NRS clients who wish to explore plan redesign possibilities should contact their Account Manager. Non-clients or their agents may contact the NRS representatives listed at the conclusion of this newsletter.

RESTATEMENT REPRIEVE FOR CASH BALANCE PLAN RESTATEMENTS

A cash balance plan, which calculates benefits very

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much like a defined contribution plan, but which is actually a form of defined benefit plan, has never been able to use IRS pre-approved plan documents. This means that cash balance plans are currently categorized as “individually designed plans” by the IRS. Accordingly, an employer who sponsors a cash balance plan and who wishes governmental assurance that the plan document meets tax qualification requirements must obtain an individual IRS determination concerning the plan’s tax status. The plan must be restated and resubmitted every five years in order for the employer to continually rely on the IRS approval of the plan document.

All this is about to change as the IRS announced earlier this year that they intend to add cash balance plans to the pre-approved plan document program. Specifically, the IRS is accepting applications and document drafts from document providers through February 2, 2015. If the IRS takes the customary two year time period for review and approval, pre-approved cash balance plan documents could be available for employer adoption as early as spring 2017. In the meantime, more than half of all employers with cash balance plans that would otherwise have to restate their plans and request IRS approval may avoid this requirement. Affected employers will instead complete a government form indicating their intent to adopt a pre-approved document (Form 8905) and wait for the new documents to become available for adoption. Executing Form 8905 does not stop the requirement for the employer to adopt “interim amendments” that may be required from time to time in order for the plan to comply with recent laws and regulations. While employers with cash balance plans are allowed to continue to keep their plans on an “individually designed” basis, retirement plan industry experts expect the great majority of affected employers will opt for the new pre-approved documents. One major incentive is the avoidance of a $2,500 IRS fee to review and approve an individually designed plan, not to mention the costs of preparing and coordinating the submission. Even if the employer makes some minor changes to the pre-approved document language, the IRS fee to review and approve the changes is $500.

National Retirement Services, Inc. will be contacting clients with cash balance plans to coordinate preparation, adoption, and file maintenance for Form 8905.

REMINDERS FOR NOVEMBER

November 17 – Retirement plan employer contributions are due in order to be deducted on employer tax returns due to be filed November 17 covering the fiscal year ending 08/31/2014 and for the fiscal year ending 02/28/14 tax returns on extension. Minimum funding requirements for defined benefit plan years ended 02/28/14 must be met by 11/15/14 in order to avoid excise taxes.

November 17 – Form 5500 Series/8955-SSA – Forms are due for the Plan Year Ending 01/31/2014 that are on extension.

December 1 – Form 5500 Series/8955-SSA – Forms are due for the Plan Year ending 04/30/14 that are not on extension.

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FOR MORE INFORMATION OR TO REQUEST A PROPOSAL, PLEASE VISIT OUR WEBSITE AT WWW.NRSERVICES.COM, OR FOR SALES SUPPORT, PLEASE CONTACT:

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