SIMPLE IRA

Description

The SIMPLE (Savings Incentive Match Plan for Employees) IRA is a business-sponsored retirement plan that allows employees to contribute to the plan through salary deferrals. The business is responsible for making contributions to the plan through a matching or non-elective contribution.

Suitability

This plan is suitable for sole proprietors, partnerships, non-profit organizations, government entities, and corporations who do not maintain, during any part of the calendar year, another qualified plan with respect to which contributions are made or benefits are accrued for service in the calendar year. The employer must have 100 or fewer employees who have earned at least $5,000 in compensation for the prior year.

Contributions

The SIMPLE IRA is funded by both employee and employer contributions. An eligible employee is allowed to defer the lesser of 100 percent of their salary or the applicable deferral limit below:

Year	Deferral Limit	Catch-up for Age 50 and up
2022	$14,000	$3,000
2023	$15,500	$3,500

The business is required to make one of the following mandatory contributions:

- A dollar for dollar match of the employee's deferral (if any) up to 3% of the employee's annual compensation (no compensation cap). The match can be reduced to as low as 1% for two years out of any five year period; or,
- A non-elective contribution of 2% of the employee's compensation, capped at $305,000 for 2022 and $330,000 for 2023, for eligible employees. It's given to employees who are eligible, whether or not they contribute.

Notes:

- Catch-up contributions apply to anyone who reaches age 50 (or over) during the calendar year.
- Contributions to the SIMPLE IRA are excludable from a participant's federal income tax and thus not subject to federal income tax withholding.
- Matching and non-elective contributions are a business tax deduction.
- Salary deferral contributions to a SIMPLE IRA are subject to FICA (Social Security and Medicare) and FUTA (federal unemployment) taxes, as well as taxes arising under the Railroad Retirement Act (RRTA).
- Matching and non-elective contributions to the employee's SIMPLE IRA are not subject to federal income tax withholding, FICA, FUTA, or RRTA taxes.
- All contributions must be made in cash.

Maximum Eligibility Requirements

Employers can restrict participation to employees who had at least $5,000 compensation in any two previous years, and are reasonably expected to receive $5,000 of compensation in the current year. The employer can also exclude employees covered by a collective bargaining agreement whose retirement benefits were bargained for in good faith, and nonresident alien employees who have received no U.S. source wages, salaries, or other personal services compensation.

Vesting

The SIMPLE IRA does not offer a vesting schedule. All contributions are 100% vested to the employee.

Deadlines

- An existing employer may establish a SIMPLE IRA plan effective on any date between January 1 and October 1, provided that the employer did not previously maintain a SIMPLE IRA. If an employer previously maintained a SIMPLE IRA, it may only establish a SIMPLE effective on January 1.
- Employee salary deferrals must be deposited as soon as administratively feasible and no later than the 30th day following the month of deferral.
    - Note: The DOL has provided a safe harbor for the deposit of deferrals for small plans (less than 100 participants). If deferrals are deposited to the plan within seven business days of receipt or withholding, they will be considered timely and meet the above deadline.
- Employer matching and non-elective contributions must be deposited by the business tax-filing deadline including extensions.
- The deadline to make changes to an existing SIMPLE, such as employee eligibility or matching contribution amounts, is November 2 prior to the year for which the change(s) are to become effective.

Additional Information

Early Withdrawal Penalty: A 25% penalty applies to withdrawals taken during the first two-year period of participation (exceptions apply). After this period, a 10% penalty applies to early withdrawals (exceptions apply). The two-year period begins on the date of the first contribution.