RETIREMENT Report

APRIL 2016 *News and updates for plan sponsors and fiduciaries of defined contribution plans*

2016 TAX SAVER'S CREDIT

Participants may be eligible for a valuable incentive, which could reduce their federal income tax liability, for contributing to your company's 401(k) or 403(b) plan. If they qualify, they may receive a Tax Saver's Credit of up to $2,000 ($4,000 for married couples filing jointly) if they made eligible contributions to an employer sponsored retirement savings plan. The deduction is claimed in the form of a non-refundable tax credit, ranging from 10 percent to 50 percent of their annual contribution.

When participants contribute a portion of each paycheck into the plan on a pre-tax basis, they are reducing the amount of their income subject to federal taxation. And, those assets grow tax-deferred until they receive a distribution. If they qualify for the Tax Saver's Credit, they may even further reduce their taxes.

Participants' eligibility depends on their Adjusted Gross Income (AGI), tax filing status and retirement contributions. To qualify for the credit, a participant must be age 18 or older and cannot be a full-time student or claimed as a dependent on someone else's tax return.

The chart below can be used to calculate the credit for the tax year 2014. First, participants must determine their Adjusted Gross Income (AGI) –total income minus all qualified deductions. Then they can refer to the chart below to see how much they can claim as a tax credit if they qualify.

Filing Status/Adjusted Gross Income for 2015

Amount of Credit	Joint	Head of Household	Single/Others
50% of amount deferred	$0 to $36,500	$0 to $27,375	$0 to $18,250
20% of amount deferred	$36,501 to $39,500	$27,376 to $29,625	$18,251 to $19,750
10% of amount deferred	$39,501 to $61,000	$29,626 to $45,750	$19,751 to $30,500

Source: IRS Form 8880

For example:

- A single employee whose AGI is $17,000 defers $2,000 to her retirement plan will qualify for a tax credit equal to 50% of her total contribution. That's a tax savings of $1,000.
- A married couple, filing jointly, with a combined AGI of $37,000 each contributes $1,000 to their respective company plans, for a total contribution of $2,000. They will receive a 20% credit reducing their tax bill by $400.

With the Tax Saver's Credit, participants may owe less in federal taxes the next time they file by contributing to their retirement plan. Accompanying this newsletter is a memo you can distribute to your employees regarding the 2016 Tax Saver's Credit.

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IRS RETIREMENT PLAN REPORTING AND DISCLOSURE REQUIREMENTS

Administrators or sponsors of retirement plans are generally required by law to report certain information with the IRS, the Department of Labor, and the Pension Benefit Guarantee Corporation, and disclosure to affected parties depending on the plans' type, size, and circumstances.

Below is an excerpt from the IRS's Retirement Plan Reporting and Disclosure Requirements regarding annual notices that are to be distributed to participants.

Annual Notices to Participants Document Type of Information To Whom When

Individual statement to separated participants with deferred vested retirement benefits

A plan administrator required to file Form 8955-SSA must furnish to each affected participant an individual state ment about the information reported on the form IRC Section 6057(e); Treasury Regulations Section 301.6057-1; ERISA Section 105(c) | Form 8955-SSA Resources | Separated participants with deferred vested retirement benefits under the plan | No later than Form 8955-SSA filing due date

Notice of effective opportunity to make or change cash or deferred election To advise employees of the opportunity to make or change a salary deferral election.

• IRC 408(p)(5)(C), 401(k)(11)(B)(iii), Treasury Regulations Sections 1.401(k)-1(e)(2)(ii) and 1.403(b)-5(b)(2)
Plan participants | Within a reasonable period of time before the 60th day before the beginning of each year
• For new participants, the 60th day before the first day the employee is eligible
401(k) safe harbor notice | Sufficiently accurate and comprehensive to inform the employee of the employee's rights and obligations, including: the safe harbor matching or nonelective contributions formula used in the plan;

- any other contributions under the plan;
- the plan to which the safe harbor contributions are made, if more than one plan;
- the type and amount of compensation that may be deferred under the plan;
- how to make salary deferral elections;
- the periods available under the plan for making salary deferral elections;
- withdrawal and vesting provisions for plan contributions; and
- how to easily obtain additional information about the plan (including a copy of the summary plan description)

• IRC Section 401(k)(12)(D); Treasury Regulations Section 1.401(k)-3(d)

• See When the Plan is Intended to be a Safe Harbor 401(k) or 401(m) Plan; Fixing Common Plan Mistakes- Failure to Provide a Safe Harbor 401(k) Plan Notice | Eligible employees | 30 to 90 days before the beginning of each plan year
• For new participants, generally no earlier than 90 days before the employee becomes eligible and no later than the eligibility date | SIMPLE IRA election notice | To provide notice of employee's right to make or modify salary reduction contributions, and to receive employer contributions, and choose a financial institution, if applicable. Includes a summary plan description. Describes any reduced matching or nonelective contributions.

Page 3 of Forms 5304-SIMPLE and 5305-SIMPLE contain a "Model Notification to Eligible Employees" IRS Notice 98-4

See Operating a SIMPLE IRA Plan; Fix-It Guide- SIMPLE IRA plan notification requirements weren't followed
Employees eligible to participate in the SIMPLE IRA plan | Immediately before the 60-day election period before January 1 of each year

The Reporting and Disclosure Guide for Employee Benefit Plans was prepared by the IRS as a quick reference tool for certain basic reporting and disclosure requirements for retirement plans under the Internal Revenue Code and provisions of Employee Retirement Income Security Act of 1974 (ERISA) administered by the IRS. The Guide is not intended to be an exhaustive list of possible civil penalties and other consequences for reporting and disclosure violations. The Department of Labor and the Pension Benefit Guaranty Corporation reviewed the parts of the Guide that concerns provisions the agencies jointly administer. View the entire guide at: https://www.irs.gov/pub/irs-tege/irs_reporting_disclosure_guide.pdf. This Guide should be used in conjunction with the DOL Retirement Plan Reporting and Disclosure Guide at http://www.dol.gov/ebsa/pdf/rdguide.pdf and DOL's www.dol.gov/ebsa/pdf/troubleshootersguide.pdf. Please be sure to check for current laws and regulations on other DOL reporting and disclosure provisions on EBSA's website at www.dol.gov/ebsa.stronger position to defend should litigation ever come knocking on their door.

PASS OR FAIL? CORRECTIVE ACTIONS TO REMEDY YOUR TEST RESULTS

Each year you receive a “pass” or “fail” from your service provider regarding required non-discrimination testing (the Actual Deferral Percentage test and the Actual Contribution Percentage test). The ADP/ACP tests govern the amounts of deferrals and/or matching contributions that highly compensated employees (HCEs) are allowed to make or receive in relation to those of non-highly compensated employees (NHCEs).

If you received a “fail” do not panic. As long as an IRS-prescribed corrective action is undertaken, the plan’s health is not in jeopardy. Correction can be made by either:

1. Refunds of excess contributions (plus earnings thereon) to HCEs
2. By employer qualified non-elective contributions (QNECs) or qualified matching contributions (QMACs) to NHCEs under the plan, or
3. By recharacterizing excess contributions. The most common corrective method is the refund of excess contributions to HCEs following IRS procedures.

Refunds must be distributed within two and a half months (or six months in the event the plan has an EACA design) following the end of the plan’s test year (March 15 for calendar year plans) in order to avoid an excise tax. Contact your plan consultant for more information.

ARE YOU MONITORING YOUR FORFEITURE ACCOUNT?

Qualified plans have a requirement to not carry forward any unallocated assets from year-to-year. Unfortunately, this rule is frequently neglected by plan sponsors, much to their chagrin when the failure is discovered on audit by the IRS or Department of Labor (DOL). Thus, it is important to remember that forfeitures must be allocated on an annual basis. The process is typically determined per the provisions in your plan document, or by plan procedures. Forfeitures should not be held over from year-to-year; if they remain accidentally unallocated, complications can result. On audit it is not uncommon for the regulatory agencies to require a plan sponsor to retroactively determine who should have received allocations on a year-by-year basis. Once those retroactive allocations have been made, the regulatory agencies typically require the plan sponsor come out of corporate pocket for earnings on all retroactively allocated amounts. This is not only a monetary burden, but an administrative burden as well due to the fact that fiduciaries must find participants who may have terminated, because they were due these allocations (and earnings) as well as participants who remain active. For questions on this topic, contact your plan consultant.

Communication Corner: Tax Saver's Credit Reminder

This month's employee memo is titled, "Tax Savers Credit Reminder". This memo reminds participants that they may be eligible for a valuable incentive, which could reduce their federal income tax liability by contributing to the company's retirement plan.

As a reminder, we post each monthly participant memo online via the Fiduciary BriefcaseTM (fiduciarybriefcase.com).

Call 405-608-8660 or email Brad or Matt if you have questions or need assistance.
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