

CLIENT REPORT

IRS Fact Sheet on Self-Employed Retirement Plan Deductions

Dear Client:

In recent years, many options have become available to self-employed business owners to provide for their retirement and that of their employees. Tax planning for retirement can include contributions to a Keogh plan, traditional or Roth IRA, SEP plan, SIMPLE plan, or a one-person 401(k) plan. Self-employed individuals may wish to consider implementing one of these plans for themselves and/or their employees because contributions generally are currently deductible by the employer, but are not taxed to the employee until distributed from the plan. Further, funds in the plan grow tax-free until distribution.

The current deduction for plan contributions is a significant tax benefit to the business. However, the deduction can be disallowed for many reasons, including, for example, if the contributions are not properly made or exceed deduction limitations, you do not have self-employment income in the tax year, or the plan otherwise fails to comply with relevant Internal Revenue Code requirements.

The IRS has issued a Fact Sheet explaining how self-employed business owners can avoid IRS examinations and potential tax assessments attributable to incorrectly taken deductions for plan contributions. The Fact Sheet specifically notes income requirements, deduction limits, and reporting requirements.

The applicable requirements are detailed and complex; we will be happy to discuss with you the various retirement plan options and how they might apply to your business, as well as the requirements for establishing plans and ensuring that you are able to take the maximum deductions for your contributions. Please call our office to arrange an appointment at your convenience.

Sincerely yours,

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