

waived for SIMPLE IRAs when the 3% match is used.

By 2005, the maximum will rise to a \$10,000 contribution and a \$10,000 employer match on employee compensation.

catch-up contributions

The tax law adds yet another wrinkle to SIMPLE plans. Participants age 50 or older can make extra catch-up contributions. These can also be matched by the employer.

The maximum add-on contribution for those age 50-plus employees is \$500 in 2002. That will increase in \$500 increments, to \$2,500

in 2006. You must earn at least as much as you contribute, counting the regular elective deferral plus the 50-plus add-on.

Higher limits: In 2002, as much as \$15,000 might be contributed to your SIMPLE account made up of...

- \$7,000 regular contribution.
- \$7,000 employer match.
- \$1,000 more if you're at least age 50 (\$500 from you and \$500 from your employer).

By 2006, that maximum amount will be up to \$25,000, including the catch-up provision if matched.

Defined-contribution plans, such as profit-sharing plans, per-

mit even greater contributions, up to \$40,000 in 2002.

when SIMPLE makes sense

Given that SIMPLE plans restrict contributions more than other retirement plans, when should you consider them? When these conditions apply...

• **Your company does not sponsor a retirement plan.** You can't have a SIMPLE plan if you offer another plan. Also, you can have no more than 100 employees who earn at least \$5,000.

Key: All employees who earn more than \$5,000 a year must be eligible to participate in a SIMPLE plan.

• **You want a plan with little paperwork.** Compared with other plans, SIMPLE plans are easy to administer. Reporting requirements are modest.

• **You want to trim costs.** With other plans, you may have to make much larger contributions for your employees. With a simplified employee pension (SEP) plan, for example, you may have to contribute 15% of pay for all of your eligible employees. Defined-contribution plans might require a 25% contribution.

By comparison, SIMPLE IRAs require only a 3% match—and then only for participating employees.

• **Low participation is likely.** The fewer employees who are likely to elect to reduce their current earnings for SIMPLE contributions, the smaller your company's match will have to be. All SIMPLE contributions are fully vested, so employees who leave will take your matching contributions with them.

SIMPLE plans are *not* subject to nondiscrimination testing. You and your fellow principals may maximize pretax contributions regardless of whether any employees elect to participate.

Thus, SIMPLE plans may be a good choice if you have a low-paid, high-turnover workforce.

• **You have family members on the payroll.** If your company pays

PERSONAL WINNERS HOTLINE

\$\$\$ IRS concedes. Gift of a portion of interest in artworks to museum is deductible. A couple entered an agreement with a museum to donate to it "fractional interests" in various artworks they owned, each being at least a 1/2 interest. The agreement allows the couple to retain possession of artworks during the year for a period of time proportionate to the ownership interest they retain, and allows them to mortgage, sell, or license the interest they retain.

IRS ruling: The donation of a fractional interest in an artwork will be deductible in an amount equal to the value of the work times the fraction.

Letter Ruling 200223013.

\$\$\$ IRS concedes. Divorce permits change of IRA distribution schedule. An individual is taking withdrawals from his IRA before age 59½ without penalty through a series of substantially equal annual distributions determined by his life expectancy. Normally, any change in such a series of payments results in an early distribution penalty being applied to all of them, if it occurs before five years

pass and the individual reaches age 59½. But here the individual is divorcing and expects half the IRA to be given to his wife in the property settlement. **IRS ruling:** The individual may reduce the size of his withdrawals by an amount corresponding to the amount of the IRA that is transferred to his wife.

Letter Ruling 200225040.

\$\$\$ IRS loses. Charges dismissed when IRS delays too long. Four individuals were indicted by state tax authorities for understating a company's income, and settled their case with the state. Four years after the state indictment, the IRS indicted them on identical charges—and didn't unseal the indictment for another 14 months after that. The individuals protested that the statute of limitations had expired by then.

IRS explanation: The five-year delay had been caused by its "heavy case load" as well as a "lack of expediency," but hadn't prejudiced the defendants' case. **Court:** The IRS's delay was unreasonable and unexcused, so the indictment was dismissed.

Joseph Deglomini, et al., DC ED NY, No. 98 CR 917 (ARR).

MOVING?

Change your address on our Web site
BottomLineSecrets.com/moving