

What Is a SIMPLE IRA?

If you are a small businessowner who wants to help your employees plan for retirement, consider a SIMPLE IRA, an affordable retirement solution designed to fit the needs of small businesses.

Contributions are made to individual retirement accounts (IRAs) that are set up for you and your eligible employees. The simplified IRA structure makes SIMPLE a reasonable option for small business owners looking for a low-maintenance, low-cost plan that offers the potential tax benefits and compounding growth you would want from your retirement plan.

Under a SIMPLE plan, you are required to make contributions to the plan on behalf of your employees. Employees can also make their own contributions through convenient payroll deductions.

Benefits to Your Business

Tax Benefits

- Contributions you make to the individual accounts under your SIMPLE plan are generally tax deductible by the business
- Your business may be eligible for a tax credit of up to \$500 for each of the first three years if this is your first SIMPLE plan
- Low fees, less paperwork
- No requirement for certain Internal Revenue Service (IRS) testing and Form 5500 filing

Competitive Edge

Because roughly 7 in 10 employees anticipate retirement income coming from an employer-sponsored retirement plan, establishing a SIMPLE may be a tool to help attract and retain employees.

Benefits to You and Your Employees

- A SIMPLE IRA allows convenient pre-tax salary deferrals, so the money is invested before individuals have a chance to spend it
- The employer's mandatory contribution to employees' SIMPLE accounts may help your employees get on the path to financial wellness in the future
- Add to this the power of compounding. Earnings realized on investments - including interest, dividends, or other returns - may then accumulate additional earnings

Tax Benefits

- Pay tax on the contributions and earnings when withdrawn in retirement, at which time you may be in a lower tax bracket
- Individuals who make salary-deferral contributions may qualify for an income tax credit of up to \$1,000 for individuals or \$2,000 if filing jointly

Investment choices and flexibility

- Employees can control how they invest their assets and may choose to invest in a variety of investment options
- All contributions are 100% vested immediately

Eligibility

- Any employee who received \$5,000 or more in compensation in any two preceding calendar years and who is reasonably expected to earn at least \$5,000 in the current year.

Contributions Help Build Retirement Assets

- SIMPLE IRA plans may be funded by both mandatory employer contributions and employee salary deferrals.
- Employers must contribute annually (by your tax-filing deadline including extensions) either:
 1. A flat 2% of compensation for each eligible employee, regardless of participation, or;
 2. Dollar-for-dollar match of employee salary-deferral contributions capped at 3% of compensation (may be reduced to as low as 1% in any two years during a five-year period).
- Employees (including yourself) in 2024 can defer up to **\$16,000** of compensation annually. If you are 50 and older, you can defer an additional catch-up contribution of up to **\$3,500** (total of \$19,500).