LEBEL & HARRIMAN LLP
Honest Financial Advice ~ Inspired Solutions

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

Volume IX | Number III | March 2016

2015 Tax Saver's Credit

Paricipants may be eligible for a valuable incentive, which could reduce their federal income tax liability, for contibuting 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 credit for the tax year 2015. 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

366 US Route One
Falmouth, ME 04105
lebelharriman.com

P: 888-879-5181
F: 207-773-3814

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 2015 Tax Saver's Credit.

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 re-characterizing 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 L & H Advisor for more information.

If a Plan commonly fails ADP/ACP testing, it may be time to revisit the plan design. Contact your TPA or Lebel & Harriman for more information about your options.

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 Lauri Reed or Vickie Bell at 207-773-5390.