SIMPLE IRA Plan [Updated 2/2007]

A Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA plan is a written arrangement that provides you and your employees with a simplified way to make contributions to provide retirement income. Under a SIMPLE IRA plan, employees can choose to make salary reduction contributions to the plan rather than receiving these amounts as part of their regular pay. In addition, you contribute matching or nonelective contributions. All contributions to a SIMPLE IRA plan are deposited in SIMPLE IRAs that are set up for each eligible employee.

Credit for startup costs: You may be able to claim a tax credit for part of the ordinary and necessary costs of starting a SIMPLE IRA plan. (See Form 8881, *Credit for Small Employer Pension Plan Startup Costs*.)

Deadline for setting up a SIMPLE IRA plan: You can set up a SIMPLE IRA plan effective on any date between January 1 and October 1 of a year, provided you did not previously maintain a SIMPLE IRA plan. This requirement does not apply if you are a new employer that comes into existence after October 1 of the year and you set up a SIMPLE IRA plan as soon as administratively feasible after you come into existence. If you previously maintained a SIMPLE IRA plan, you can set up a SIMPLE IRA plan effective only on January 1 of a year. A SIMPLE IRA plan cannot have an effective date that is before the date you actually adopt the plan. SIMPLE IRA plans can only be maintained on a calendar-year basis.

Setting up a SIMPLE IRA plan: You can use Form 5304-SIMPLE, *Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) - Not for Use With a Designated Financial Institution* or Form 5305-SIMPLE, *Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) - for Use With a Designated Financial Institution* to set up a SIMPLE IRA plan. Each form is a SIMPLE IRA plan document. Use Form 5304–SIMPLE if you allow each plan participant to select the financial institution for receiving his or her SIMPLE IRA plan contributions. Use Form 5305–SIMPLE if you require that all contributions under the SIMPLE IRA plan be deposited initially at a designated financial institution.

The SIMPLE IRA plan is adopted when you have completed all appropriate boxes and blanks on the form and you (and the designated financial institution, if any) have signed it. Keep the original form. Do not file it with the IRS.

Additionally, a SIMPLE IRA plan may be established through the adoption of a prototype SIMPLE IRA plan document (usually through a mutual fund, insurance company, bank or other qualified financial institution).

Other uses of the forms: If you set up a SIMPLE IRA plan using Form 5304–SIMPLE or Form 5305–SIMPLE, you can also use the form to:

- Meet the employer notification requirements for the SIMPLE IRA plan. Page 3 of Form 5304–SIMPLE and page 3 of Form 5305–SIMPLE contain a *Model Notification to Eligible Employees* that provides the necessary information to the employee.
- Provide employees with a salary reduction agreement. Page 3 also contains a *Model Salary Reduction Agreement*.

Setting up SIMPLE IRAs: SIMPLE IRAs are the individual retirement accounts or annuities into which the contributions are deposited. A SIMPLE IRA must be set up for each eligible employee. Forms 5305–S, *SIMPLE Individual Retirement Trust Account*, and 5305–SA, *SIMPLE Individual Retirement Custodial Account*, are model trust and custodial account documents the participant and the trustee (or custodian) can use for this purpose.