

# HICKS NOTES

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## TALES FROM THE FIELD: CAN YOUR PLAN PASS AN IRS AUDIT?

I recently attended an IRS audit and can give insight into the areas they are looking at. Our client is a medical facility with over 100 401(k) plan participants. They were using an investment provider, us for plan administration and a payroll company for processing payroll. They were required to have a independent audit of the plan, which was performed every year.

When the initial audit letter arrives, it will be a request for a large range of information. You will need to provide all plan documents and amendments, as well as payroll and other administrative information. The list is extensive and finding all the correct documents can be time consuming. The request letter is [here](#).

The IRS requires a face-to-face interview with the Plan Sponsor to ask probing questions that can help them determine how well the plan is being run. In our case, the auditor started with basic information. What is your business? Who owns it? Who are the officers and directors?

They then moved on to the payroll questions. Who does your payroll? How are the contributions submitted? How are loans repaid? These questions are looking for operational issues of timely deposits and participant loan management. By having an outside payroll provider, they moved on. If this been done in-house, additional questions would dive into the timeliness of transmission of the employee 401(k) contributions.

Next, were the controlled group questions. Do the principals own any other businesses? Does this entity own any other businesses? Do they use independent contractors? What are their duties? This line of questioning is looking for controlled and/or affiliated serviced groups, and leased employees. In particular, were there participants that may need to be included in the plan, but weren't because they worked for another employer or were not classified properly.

The final line of questions went to the fiduciary issues involved in running the plan. Are there any loans to officers? Loans to family members? Any non-conforming

assets? Notes in default? Are loans being repaid by payroll deductions?

All in all, this audit and interview took less than two hours and we passed with no follow-up issues because the plan was run simply and accurately. The best defense is to do it right and you will never have to worry about an IRS audit. Have questions or issues? Please contact us today.

## DON'T MISS OUR WEBINARS

We are excited to able to provide 3 hours of free continuing education credit for CPAs and CFP@s at this year's webinars. Why waste time driving and sitting through the same tired presentations? Webinars are convenient, easy and are presented in the comfort of your home or office.

Three different subjects will be covered over the next few weeks. We will teach you about Defined Contribution Plans and 401(k) Rules in course one. This is perfect for those who want to keep up on plan basics, new limits and issues that have arisen over the last few years. This knowledge will help you market or service clients.

The second course is a Defined Benefit and Cross Testing Review. This will show you how these plans work to maximize contributions for owners while keeping costs in line for the employees, and help clients reduce their taxes.

The third course covers Fiduciary Issues and Legal Review. Items to be discussed include: Disclosure regulations, Fiduciary types and procedures to protect Trustees.

Understanding these rules will make you a better advisor to all retirement plan trustees. We will also be available to answer any questions you may have on these subjects.

[Click here](#) to view the INVITATION and then click on the dates you wish to attend. It will be time well spent, we promise.