

A SIMPLE IRA PLAN TERMINATION

Other than the first year of your plan, SIMPLE IRA plans must be maintained for a whole calendar year. Once started, you must continue your SIMPLE IRA plan for the entire calendar year, funding all contributions promised in the employee notice. If you decide your SIMPLE IRA plan no longer suits your business, here are the steps necessary to terminate the plan.

1. Know when you can make the switch: You must notify your employees within a reasonable time. The IRS requires this notification be made before November 2nd, letting employees know that the SIMPLE IRA will be terminated effective December 31st.

Example: If Employer X wishes to terminate their SIMPLE IRA in 2020 and would like to switch to a 401(k) plan in 2021, then they must issue a termination notification to all employees prior to November 2, 2020. If Employer X does not issue this notification by this date, then they must sponsor the SIMPLE IRA for 2021.

Sample Notice:

I am writing to formally notify you of our decision to discontinue our SIMPLE IRA Plan as of December 31, 2020. All employee contributions into the SIMPLE IRA plan will cease as of this date.

Employees who have participated in the SIMPLE IRA plan for at least 2 years may roll their accounts into the new 401(k) plan without paying taxes or an early-distribution penalty. All other employees must wait at least two years beyond their first contribution date to make a rollover,

Feel free to contact me with any questions.

2. Notify your SIMPLE IRA's providers: Let your plan's financial institution and payroll provider know that the SIMPLE IRA plan is being terminated and contributions will cease as of the end of year.

3. Keep records: You must keep records of your actions, but you do not need to notify the IRS that you have decided to terminate your SIMPLE IRA plan.

Other points to be aware of:

- You never need to file a 5500 for a SIMPLE IRA plan, even when it terminates.
- Participants in the plan can elect to distribute money as taxable income or they can roll the money into another qualified plan. There are limitations on distributions.
- Even after a SIMPLE plan terminates, distributions and rollovers cannot occur until the plan has become fully funded. Employee contributions must be made as soon as possible but must be made no later than 30 days after the month that contributions were withheld. Employer contributions must be made by the due date of the employer's federal tax return.

With the deadline approaching, it is time to decide and move clients into a 401(k) plan. Please reach out to Debbie Rath at drath@nhicks.com with any questions or contact our office directly at 530-891-4975.