



## **LEGISLATIVE UPDATE AND TAX REMINDERS**

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### **Recent Pension Changes**

All Plans in the U.S. have to be amended for GATT, USERRA, SBJPA and TRA97, collectively known as "GUST".

Not unexpectedly (do we sound like a broken record?), the deadline to adopt the GUST amendments has been extended to the last day of the Plan Year which begins in calendar year 2001 (i.e. the earliest date would be December 31, 2001). We believe this is the final extension. We plan on contacting you during the summer of 2001 to begin the amendment process.

### **401(k) Nondiscrimination Rules**

- If the Average Deferred Percentage Test is failed, refunds are made to the **highest dollar contributor**, not the highest percentage contributor.
- Generally, last years' Non-Highly Compensated percentage must be used to test for discrimination. However, employers may formally elect to continue to use the current year's Non-Highly Compensated percentage. This election can only be changed in limited circumstances. **For 1997 – 2000, the IRS will not require an election, so either method can be used.**
- Definition of Highly Compensated
  - 5% owner in current or prior year
  - \$85,000 compensation in prior year

### **Accepting Rollover Contributions**

When accepting rollover contributions, you must reasonably conclude that the contribution is valid. We suggest that you request a copy of the IRS favorable determination letter from the distributing Plan.

### **Elimination of Combined Plan Rules Effective Date**

Although passed some time ago with a delayed effective date, the combined Plan rules under Code Section 415(e) are repealed as of the first day of the Plan Year beginning in 2000. Small Employers who have maximized contributions to their Defined Contribution Plans and are now older can switch to a Defined Benefit Plan and contribute substantial amounts.

### **401(k) Contribution Depositing Requirements**

Under DOL rules, 401(k) contributions must be deposited **as soon as possible**, but not later than 15 working days after the end of the month during which the contributions were withheld. The DOL considers these contributions Plan assets, which would result in a prohibited transaction if not deposited within the time required by these rules.

### **IRS Dollar Limits for Retirement Plans**

	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
Elective 401(k) and 403(b) deferrals	\$ 10,000	\$ 10,500	\$ 10,500
Maximum Defined Contribution limit	30,000	30,000	35,000
Maximum Defined Benefit limit	130,000	135,000	140,000
Maximum Compensation limit	160,000	170,000	170,000

### **Miscellaneous**

If you are still using your company's EIN for the Plan's Trust account, you will want to get an EIN for the Trust to avoid depositing deadlines and penalties for paper filings.

70 ½ minimum distributions are only required on 5% owners; however, for defined benefit plans, we suggest you make the 70 ½ distributions to all participants due to requirement to provide an actuarial equivalent if you don't.

Contributions must be made by your tax-filing deadline with extensions to be deductible and must be made within 8 ½ months of the Plan Year end if subject to Minimum Funding Standards.

Controlled Groups are treated as a single employer for pension purposes.