

LEGISLATIVE UPDATE AND TAX REMINDERS

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Recent Pension Changes

Although EGTRRA is not new, it had such sweeping provisions that it deserves special attention. The Economic Growth and Tax Relief Reconciliation Act of 2001, EGTRRA, is one of the most significant pension legislative acts ever ranking with ERISA 1974 and the Tax Reform Act of 1986.

EGTRRA provides enhancements in so many areas we can only briefly list the most significant, most of which are effective for Plan Years beginning in 2002.

- Compensation limits increased from \$170,000 to \$200,000
- Defined Contribution limits increased to 100% of salary to a maximum of \$40,000 plus catch-up contributions
- 401(k) contribution limits increased and catch-up contributions added for those over age 50.

| YEAR | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|----------|--------|--------|--------|--------|
| 401(k) | \$11,000 | 12,000 | 13,000 | 14,000 | 15,000 |
| CATCH-UP (over age 50) | \$1,000 | 2,000 | 3,000 | 4,000 | 5,000 |

- Profit Sharing deduction limit increased from 15% of Salary to 25% of Salary with 401(k) contributions separately deductible.
- Defined Benefit limit increased from an annual benefit of \$140,000 payable at the Social Security Retirement Age to \$160,000 payable at Age 62.
- Plan loans allow for Self-Employed and Owner Employees.

“GUST” Amendments

The “GUST” amendment deadline came and went but was extended again until 9/30/2003. Although most of you have already gone through the amendment process, there are still a few plans that need to be updated. If your Plan has not been updated, please notify us immediately.

Accepting Rollover Contributions

Effective 1/1/2002, EGTRRA allows for portability in rollovers among all types of deferred compensation plans – Qualified Plans, 457 Plans, 403(b) Annuities and IRA’s. But beware all of the details have not been worked out. So just stay with rollovers from like plans for now. We suggest that you get proof from the distributing Plan that it is qualified.

401(k) Contribution Depositing Requirements

As we’ve previously reported, the DOL is penalizing late depositors. 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 for which they were withheld. Although some DOL auditors agree with monthly deposits, some have been assessing prohibited transaction penalties and lost interest charges beginning 7 days after each payroll.

IRS Dollar Limits for Retirement Plans

| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Elective 401(k) and 403(b) deferrals | \$ 10,500 | \$ 10,500 | \$ 11,000 | \$ 12,000 |
| Catch-up Contributions (over age 50) | N/A | N/A | 1,000 | 2,000 |
| Maximum Defined Contribution limit | 30,000 | 35,000 | 40,000 | 40,000 |
| Maximum Defined Benefit limit | 135,000 | 140,000 | 160,000 | 160,000 |
| Maximum Compensation limit | 170,000 | 170,000 | 200,000 | 200,000 |

Miscellaneous

- Blackout periods require minimum of 30 days advance notice
- Minimum Distributions are only required for 5% owners
- Contributions must be made by your tax-filing time with extensions to be deductible and must be made within 8 _ months of the Plan Year end if subject to Minimum Funding Standards.
- Controlled Groups are treated as a single employer for all retirement plan purposes.
- Sub-S pass through income is not compensation for Plan purposes.