Social Security starts on Page 14-24.

Retirement

Tab 14 Retirement Topics

2020 IRA Chart

	Traditional IRA		Roth IRA
	Deductible IRA	**Nondeductible IRA**	
Qualifications to Make Contributions	Individual (or spouse) must have earned income (compensation). **Law Change Alert:** The SECURE Act repealed the maximum age limit for traditional IRA contributions. For tax years prior to 2020, there was a maximum age limit of 70½.		Individual (or spouse) must have earned income (compensation). No age restrictions.
Contribution Limit	Lesser of (1) $6,000 (additional $1,000 if age 50 or older at end of the year) or (2) compensation. *Spousal IRA rule:* Provided a joint return is filed, the lower-earning spouse (even if no earnings) can consider the other's compensation to the extent it has not been taken into account in making an IRA contribution for the higher-earning spouse.		Same as traditional IRA but phases out at following modified AGI amounts: MFJ, QW: $ 196,000 – $ 206,000 Single, HOH: 124,000 – 139,000 MFS:[1] 0 – 10,000
Contribution Deadline	Due date (not including extensions) of return for the year of the contribution. April 15, 2021 for 2020 contributions. **COVID-19 Tax Alert:** In response to the COVID-19 pandemic caused by the new coronavirus, the IRS extended the IRA contribution due date for individual taxpayers from April 15, 2020 to July 15, 2020 for 2019 contributions (Notice 2020-23).		
Allowable Deduction	Full deduction if individual (and spouse) not covered by an employer retirement plan. If individual (or spouse) is covered by an employer retirement plan, see next row.	None	None
Impact of Being Covered By an Employer Retirement Plan	If individual is covered, the deduction for the individual's contribution is subject to phase-out at the following modified AGI amounts: MFJ, QW: $ 104,000 – $ 124,000 Single, HOH: 65,000 – 75,000 MFS:[1] 0 – 10,000 If not covered but spouse is covered, the deduction for the individual's contribution is subject to phase-out at the following modified AGI amounts: MFJ, QW: $ 196,000 – $ 206,000 MFS:[1] 0 – 10,000	None	None
Taxation of Distributions	Distributions are taxable as ordinary income. If there are any traditional IRAs with basis, the value and basis of all of the individual's traditional IRAs (including SEP IRAs and SIMPLE IRAs) are combined to compute the nontaxable portion of the distribution, based on a pro rata allocation.		Qualified distributions are nontaxable—see *Qualified distributions* on Page 14-8. The earnings portion of nonqualified distributions is taxable as ordinary income.[2]
Penalties	6% penalty on excess contributions. 10% penalty on early (pre-age 59½) distributions not meeting a penalty exception (see below). 50% penalty on excess accumulation when required minimum distribution not made.		
Exceptions to 10% Early Distribution Penalty	The 10% penalty does not apply to the following IRA distributions: 1) On or after age 59½. 2) After becoming disabled. 3) To a beneficiary of a deceased IRA owner. 4) Substantially equal periodic payments. 5) To the extent the taxpayer has unreimbursed medical expenses exceeding 7.5% of his AGI. 6) For the birth or adoption of a child (up to $5,000 per child). 7) Made to certain unemployed individuals to the extent of the cost of their health insurance premiums. 8) To the extent the taxpayer has qualified higher education expenses. 9) Used to buy, build or rebuild a first home (up to $10,000 lifetime limit). 10) Resulting from an IRS levy on the account. 11) Made to certain military personnel. 12) Up to $10,000 for a qualified disaster. 13) Coronavirus-related distributions.		
Required Distributions	Must begin by April 1 of the year following the year the account owner turns age 72.[3]		Distributions are required only after the death of the Roth IRA owner.
Rollovers and Conversions	IRA funds may be rolled into another IRA or employer retirement plan (see *Rollovers and Transfers* on Page 14-9). IRA funds may also be converted to a Roth IRA—the conversion is subject to income tax but not the 10% early withdrawal penalty.[3]		Funds from one Roth IRA may be rolled over tax-free into another Roth IRA.

[1] Married individuals filing MFS who live apart at all times during the year are treated as single.

[2] Roth IRA distributions are treated as made from contributions first. Taxation on the earnings portion begins after total distributions exceed total contributions.

[3] **Law Change Alert:** For distributions required to be made after December 31, 2019, the SECURE Act changed the RMD age from 70½ years old to 72 years old. Individuals that were 70½ prior to 2020 are subject to the previous rule requiring RMDs to begin at age 70½.
COVID-19 Tax Alert: The CARES Act waives RMDs that are required to be made in 2020 from defined contribution plans [such as 401(k) plans] and IRAs. The waiver includes the RMDs that were due by April 1, 2020 because the account owner turned 70½ in 2019.

[4] Traditional IRA converted to a Roth IRA must remain in the Roth IRA for five years or the 10% penalty applies to the converted amount that is withdrawn, even if the amount distributed is not subject to income tax (unless one of the 10% penalty exceptions applies).

2020 Employer and Self-Employed Retirement Plan Chart

	SEP IRA (Self-Employed)	SEP IRA (Employee)	SIMPLE IRA
Who can establish?	Anyone (regardless of age) with self-employment (SE) income.[1]	Any employer.	Employers with 100 or fewer employees (including self-employed individuals) that do not maintain another retirement plan.
Eligible employees[2]	N/A. But, if contributions are made for self-employed, they must also be made for eligible employees.	Employees at least age 21 who worked for the employer during at least three of the last five years and received at least $600 in compensation from employer in 2020.	Employees who have earned at least $5,000 from employer in any prior two years, and are reasonably expected to do so in the current year.
Maximum Contributions Allowed	20% of net SE income after SE tax deduction up to a maximum contribution of $57,000. SARSEPs established before 1997 follow 401(k) contribution limit rules.	25% of wages up to maximum contribution of $57,000. SARSEPs established before 1997 follow 401(k) contribution limit rules.	Employee elective deferrals limited to $13,500 (additional $3,000 if age 50 or older at end of the year). The employer can either: 1) Match employee elective deferrals dollar for dollar up to 3% of wages (can be reduced to as low as 1% in any two out of five years) or 2) Contribute 2% of wages (up to $285,000) for ***all*** employees (including nonparticipants).
Penalties for Early Withdrawal (Before Age 59½)[6, 7]	10% of distribution. (See *Exceptions to 10% Withdrawal Penalty Before Age 59½* on Page 14-4.)		10% of distribution, or 25% if withdrawn within two years from the date first participated in plan. (See *Exceptions to 10% Withdrawal Penalty Before Age 59½* on Page 14-4.)
When Withdrawals Must Begin[8]	By April 1 of the year following the year the account owner turns age 72 (or 70½ if turned 70½ before January 1, 2020). **Note:** Contributions can still be made to the account after age 72 if the individual has earned income.		
Date to Establish Plan and Make Contributions	Return due date, including extensions, for the year the plan is to be effective.		• Establish plan by October 1, 2020 for new plans first in effect for 2020.[3] • Make employer contributions by the return due date, including extensions.[4]
Employer Contributions Required?	No	No	Yes
Borrowing Permitted?	No	No	No
Rollover Allowed?	Yes	Yes	Yes
Penalty for Excess Contributions?[5]	6% excise tax for both self-employed individuals and employees if excess contribution (plus earnings) is not withdrawn by return due date (including extensions). Employers are subject to a 10% excise tax on nondeductible (excess) contributions, unless an exception applies.		

[1] A SEP is established at the employer level. For a partner, the partnership establishes and contributes to the SEP.

[2] Plans can set less restrictive participation requirements, but not more restrictive ones.

[3] New employers that come into existence after October 1 may establish a plan as soon as administratively possible.

[4] Employee and self-employed elective deferrals must be deposited as soon as reasonably possible, but no later than 30 days after the end of the month in which the amounts would otherwise have been payable to the employee in cash. A self-employed taxpayer's elective deferral must be deposited by January 30 of the following year (January 30, 2021 for 2020 amounts).

[5] Excess contribution penalties are cumulative each year until corrected. The penalty is reported on IRS Form 5330 (Return of Excise Taxes Related to Employee Benefit Plans).

[6] **Law Change Alert:** The 10% early withdrawal penalty was waived by the CARES Act for distributions up to $100,000 from IRAs and defined contribution plans made for COVID-19 related purposes during 2020. This rule also applies to the 25% penalty for certain SIMPLE plan distributions. See *Coronavirus-Related Distributions* on Page 14-14 for more information. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1 for similar relief for disaster victims.

[7] **Law Change Alert:** The SECURE Act provides that distributions made after 2019 for the birth or adoption of a child (up to $5,000 per individual) are not subject to the 10% penalty tax on early withdrawals. The participant may also repay the funds to the qualified plan or IRA.

[8] **COVID-19 Tax Alert:** The CARES Act waived the rules regarding certain defined contribution plan and IRA required minimum distributions (RMDs) for the 2020 tax year. This waiver includes RMDs that were due on or before April 1, 2020 because the account owner turned 70½ in 2019. See *Required Minimum Distributions* on Page 14-15.

2020 Employer and Self-Employed Retirement Plan Chart

<table>
<tr><th>Defined-Benefit</th><th>Defined-Contribution (Profit-Sharing)</th><th>401(k)</th><th>403(b)</th></tr>
<tr><td colspan="3">Any employer.</td><td>Tax-exempt religious, charitable or educational organizations.</td></tr>
<tr><td colspan="3">Employees at least age 21 with one year of service (1,000 hours).[9]</td><td>Employees[10] who work 20 or more hours per week, do not participate in another 401(k), 457 or 403(b) plan and will contribute more than $200 per year.</td></tr>
<tr><td>Actuarially determined contribution. Maximum benefit payout limited to 100% of average compensation for the three consecutive years of highest compensation (limited to $285,000), but not to exceed $230,000.[11]</td><td>Contributions per participant up to lesser of 100% of compensation or $57,000. Employer deduction limited to 25% of aggregate compensation (limited to $285,000 per employee) for all participants (20% of net SE income after SE tax deduction for self-employed).[11]</td><td>Employee elective deferrals limited to $19,500 (additional $6,500 if age 50 or older at end of the year). Employer deduction limited to 25% of combined wages of all employees (elective deferrals do not reduce wages for the 25% limit). Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or $57,000 (additional $6,500 for employees age 50 or older by year-end).[11]</td><td>Employee elective deferrals limited to $19,500 (additional $6,500 if age 50 or older at end of the year). Special formula applies to additional employer contributions based on years of service. Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or $57,000 (additional $6,500 for employees age 50 or older by year-end).[11]</td></tr>
<tr><td colspan="4">10% of distribution. (See Exceptions to 10% Withdrawal Penalty Before Age 59½ on Page 14-4.)</td></tr>
<tr><td colspan="4">For self-employed and >5% owners, by April 1 of the year following the year the account owner turns age 72 (or 70½ if turned 70½ before January 1, 2020). For all other employees, April 1 of the year following the year the account owner turns age 72 or retires, whichever is later.</td></tr>
<tr><td colspan="2">Law Change Alert: The SECURE Act provides that qualified retirement plans adopted after the close of a tax year but before the due date (including extensions) of the tax return may be electively treated as having been adopted on the last day of the tax year.
Return due date, including extensions for profit-sharing plan contributions. 8½ months after year-end for defined benefit plan contributions.</td><td colspan="2">Law Change Alert: The SECURE Act provides that qualified retirement plans adopted after the close of a tax year but before the due date (including extensions) of the tax return may be electively treated as having been adopted on the last day of the tax year.
For employer contributions, return due date including extensions.[12]</td></tr>
<tr><td>Yes</td><td>No</td><td colspan="2">Generally no.</td></tr>
<tr><td colspan="4">Yes, if plan permits. Must pay back in five years (unless used to buy a principal residence). Qualified plans are prohibited from making plan loans through credit cards or similar arrangements.</td></tr>
<tr><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
<tr><td colspan="2">Employers are subject to a 10% excise tax on nondeductible (excess) contributions, unless an exception applies.</td><td colspan="2">Employee's elective deferral: No penalty or tax if 2020 excess is withdrawn by April 15, 2021 (but allocable earnings are taxable in year withdrawn). If not withdrawn by April 15, 2021, excess is taxed twice—once in the year of excess contribution and again when distributed because no cost basis is allowed for excess contribution.
Employer's contribution: 10% penalty on excess contributions (resulting from plan failing average deferral percentage test) unless distributed (with earnings) to highly compensated employee(s) within 2½ months after the close of the plan year (taxable to employee in year of deferral). Failure to distribute excess within 12 months after close of plan year results in plan failing to qualify for that plan year and all subsequent plan years for which the excess contributions remain uncorrected.</td></tr>
</table>

[9] **Law Change Alert:** The SECURE Act provides that for plan years beginning after December 31, 2020, long-term part-time employees (those with at least 500 hours of service in three consecutive 12-month periods, and who are at least age 21 by the end of the last period) must be allowed to participate and make elective deferrals in a 401(k) plan. This provision will first be impactful in 2024 after there have been 3 consecutive 12-month periods.

[10] Includes self-employed ministers.

[11] Nondiscrimination rules may affect contributions/deferrals for certain employees. The SECURE Act provides that for plan years beginning after 2019, the maximum default rate for automatic safe harbor enrollment is increased from 10% to 15%. However, the rate remains at 10% for the initial year that the deemed election applies to a participant.

[12] The Tax Code does not specify when the employer is required to deposit employee elective deferrals into the employee's account. However, under ERISA regulations, employee elective deferrals must be contributed to the employee's 401(k) plan account as soon as reasonably can be segregated from the employer's general assets, but not later than the 15th business day of the month immediately after the month in which the contributions either were withheld or received by the employer.

Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1.

Advantages to Employer and Self-Employed Plans

Qualified plans, SEPs, and SIMPLEs:

- Contributions are generally tax deductible by the contributor and tax deferred for the plan participant. Earnings on contributions are tax deferred until withdrawn.
- Maximum contributions (including SEPs and SIMPLEs) are generally greater than IRAs.
- Deductible contributions allowed after age 72.

SEPs and SIMPLEs:

- Easy to set up and maintain.
- Allow plan participant to choose how funds are invested as opposed to a plan administrator through employer.
- Participant is always 100% vested in the plan.

SEPs:

- No annual reporting requirements; easy to administer.
- Do not require recurring contributions.

SIMPLEs: Similar to 401(k) employee elective deferral and employer matching, without complex nondiscrimination and "top-heavy" rules.

401(k) and 403(b) plans:

- Employers allowed to match employee contributions; employee is generally fully vested sooner than with other qualified plans.
- Plan is managed by professionals.
- Easy for employees—contributions through payroll reductions.
- Certain tax-free borrowing from plan is permitted.

Exceptions to 10% Withdrawal Penalty Before Age 59½

Note: Distributions treated as a return of nondeductible contributions, distributions of excess contributions or deferrals, and distributions of excess aggregate contributions to meet nondiscrimination requirements are not subject to the 10% penalty.

Form 5329 Number	Applies to distributions from:	Exception
01	Qualified plan	Distribution made to an employee after separating from service in or after the year he reaches age 55 (age 50 for qualified public safety employees).
02	Qualified plan or IRA	Distribution is part of a series of substantially equal periodic payments made over the life expectancy of the participant or joint lives of participant and his beneficiary.
03	Qualified plan or IRA	Distribution made due to total and permanent disability.
04	Qualified plan or IRA	Distribution made due to death.
05	Qualified plan or IRA	Distribution to the extent the individual's unreimbursed medical expenses exceed 7.5% of his AGI.
06	Qualified plan	Distribution made to an alternate payee pursuant to a qualified domestic relations order (QDRO).
07	IRA	Distribution to pay for health insurance premiums for certain unemployed individuals.
08	IRA	Distribution to the extent of the qualified higher education expenses for the year of the taxpayer, spouse, child, or grandchild.
09	IRA	Distribution for first-time home purchases (no home ownership in prior two years). Exception limited to $10,000 (lifetime).
10	Qualified plan or IRA	Distribution due to an IRS levy on the qualified plan or IRA. The exception will not apply if funds are withdrawn to avoid a levy or to satisfy a levy on other property.
11	Qualified plan or IRA	Distribution to reservists while serving on active duty for at least 180 days.
12	—	Various other exceptions. See Form 5329 instructions and Pubs. 575 and 721 for more information.
12	Qualified plan or IRA	Distribution of up to $100,000 for a qualified disaster and/or related to coronavirus.
12	Qualified plan or IRA	Distribution for the birth or adoption of a child (up to $5,000 per child).

Notes