

# The 5304-SIMPLE IRA Plan

## 1. SIMPLE IRA Plan

A Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) Individual Retirement Account (IRA) Plan is a tax-favored retirement plan that certain small employers (including self-employed individuals) can set up for the benefit of their employees.

## 2. Employer Plan Eligibility Requirements

The following conditions must be met for an employer to be eligible to set up a 5304-SIMPLE IRA Plan:

- The SIMPLE IRA Plan must be set up by a self-employed individual or corporation who controls a business from which his/her personal services are an income-producing factor.
- The employer must have 100 or fewer employees who earned at least \$5,000 in compensation during the preceding calendar year. See IRS Publications 560 and 590 for details on grace period for employers who cease to meet the 100-employee limit.
- The employer has not maintained another employer-qualified plan during the calendar year in which contributions were made.
- The employer may be required to include leased employees and the employees of other business(es) as described below:
  - (a) An affiliated service group described in section 414(m)
  - (b) A controlled group of corporations described in section 414(b)
  - (c) Trades or businesses under common control described in section 414(c)

## 3. Maximum Eligibility Requirements for Employees

An eligible employee is an individual who meets the following requirements:

- Any employee who received at least \$5,000 in compensation during any two years preceding the current calendar year and is reasonably expected to receive at least \$5,000 during the current calendar year.
- An employer can use less restrictive eligibility requirements by eliminating or reducing:
  - (a) Prior year compensation requirements
  - (b) Current year compensation requirements

OR

- (c) Both

For example, an employer can allow participation for employees who receive at least \$3,000 in compensation during any preceding calendar year.

- An employer may exclude:
  - (a) Employees covered by a collective bargaining agreement
  - (b) Non-resident aliens

## 4. Contributions

The employer may determine annually either to make a matching or nonelective contribution to each eligible employee.

The matching contribution option requires the employer to make a matching contribution for each eligible employee's salary reduction contribution up to 3% of the employee's compensation.

Note: This contribution can be reduced to as low as 1% in a two-out-of-five-year period.

The nonelective contribution option requires the employer to make a 2% contribution on behalf of each eligible employee for the contribution year. If the employer chooses a nonelective contribution, each eligible employee must receive a contribution regardless of whether he/she makes a salary deferral election. A maximum compensation amount of \$350,000 in 2025 and \$360,000 in 2026 (may be adjusted for cost of living) is used to determine the contribution limit for nonelective contributions.

## 5. Deducting Contributions

An employer can deduct matching or nonelective SIMPLE IRA contributions for the tax year the contributions are made. See IRS Publications 560 and 590 for complete details on SIMPLE IRA contribution deductions.

## 6. Notification Requirement

The following information must be provided to each employee (participant) when he/she first becomes eligible to participate in the SIMPLE IRA Plan and at least once a year:

- A copy of the employer's 5304-SIMPLE IRA Adoption Agreement (upon request)
- A copy of the employer's SIMPLE IRA Summary Plan Description (SPD) and Employer Election Notice. (This document must be provided when the participant becomes eligible to participate in the Plan and by Nov. 1 each subsequent year.)
- A Salary Reduction Agreement Form. (The employer must allow an employee to change or modify his/her salary reduction arrangement during the employer's salary reduction election period.)

## 7. Distributions

An employer may not prohibit an employee of the SIMPLE Plan from taking distributions from his/her SIMPLE IRA.

## 8. Tax Consequences

Before establishing a 5304-SIMPLE IRA, please consult with a qualified attorney or tax advisor. Edward Jones does not issue an opinion as to, and is not responsible for, the tax consequences of the adoption of a 5304-SIMPLE IRA Plan.

## 9. Investment Options

An employee may divide his/her investable dollars among the available investment options. The investment percentage must equal 100%.

**This document is not intended as a substitute for guidance from your tax or legal advisor.**

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