

IRS ANNOUNCES 1997 PENSION PLAN LIMITATIONS

From Internal Revenue Service

■(WASHINGTON) The Internal Revenue Service recently announced cost-of-living adjustments applicable to dollar limitations on benefits under qualified retirement plans and to other provisions affecting such plans.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under these plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases. Effective January 1, 1997, the limitation on the annual benefit under a defined benefit plan under section 415(b)(1)(A) is increased from \$120,000 to \$125,000. For participants who separated from service before January 1, 1997, the limitation for defined benefit plans under section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 1996, by 1.0294.

The limitation for defined contribution plans under section 415(c)(1)(A) remains unchanged at \$30,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of section 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The special limitation for qualified police or firefighters under section 415(b)(2)(G) is increased from \$66,000 to \$70,000.

The limitation on the exclusion for elective deferrals under section 402(g)(1) re-

mains unchanged at \$9,500.

The dollar amount under section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$690,000 to \$710,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$135,000 to \$140,000.

The threshold amount under section 4980A(c)(1)(B) regarding excess distributions is increased from \$155,000 to \$160,000.

The limitation used in the definition of highly compensated employees under section 414(q)(1)(B), as changed by section 1431 of the Small Business Job Protection Act of 1996, is \$80,000.

The annual compensation limit under sections 401(a)(17) and 404(l) is increased from \$150,000 to \$160,000.

The compensation amount under section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$400. The compensation amount under section 408(k)(3)(C) for SEPs is increased from \$150,000 to \$160,000.

The compensation amount under section 408(p)(2)(A) regarding simple retirement accounts, as added by section 1421 of the Small Business Job Protection Act of 1996, is \$6,000.

The limitation on deferrals under sections 457(b)(2) and (c)(1) concerning deferred compensation plans of state and local governments and tax-exempt organizations remains unchanged at \$7,500.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

IRS ANNOUNCES MODEL SIMPLE RETIREMENT PLAN

From Internal Revenue Service

■(WASHINGTON) The Internal Revenue Service recently announced the release of Form 5305-SIMPLE. Section 1421 of the Small Business Job Protection Act of 1996 (P.L. 104-188), signed into law on August 20, 1996, created the Savings Incentive Match Plan for Employees of Small Employers (SIMPLE Plan) effective in 1997. SIMPLE Plans offer small employers a simplified option for providing retirement income for employees through salary reduction and matching contributions that are made to individual retirement accounts or annuities (IRAs).

Form 5305-SIMPLE provides small employers with an easy way to adopt a SIMPLE Plan by using a model plan document, notification to employees, and salary reduction agreement. For the 1997 calendar year, the model SIMPLE Plan can be made effective as early as Jan. 1 and as late as Oct. 1.

NEW IRS DOCUMENT EXPLAINS SECTION 530 RELIEF REQUIREMENTS

From Internal Revenue Service

■(WASHINGTON) The Internal Revenue Service recently released a simple, one-page document to help businesses understand their rights under the law when the IRS questions their classification of workers as independent contractors. The new document is the latest in a series of actions the IRS has recently taken to make it easier for businesses to work with the IRS on worker classification issues.

The new explanation, Independent Contractor or Employee?, sets out the three so-called section 530 relief requirements — provisions contained in section 530 of the Revenue Act of 1978. In general, a business can be relieved of certain federal employment tax obligations if it:

- had a reasonable basis for not treating workers as employees,
- was consistent in its treatment of any similar workers as contractors, and
- consistently filed required information returns with the IRS.

IRS tax examiners will provide the new explanation of section 530 relief requirements at the beginning of any inquiry into worker classification and will answer any questions about eligibility for this relief.

Commenting on the new document, Internal Revenue Commissioner Margaret Milner Richardson said, "Not only will this new explanation help businesses by explaining in simple terms a complicated provision of the law. It will also provide the consistency of treatment in worker classification matters that the business community and the IRS have long sought. It's a significant part of our on-going efforts to improve employment tax administration for all taxpayers."

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operating and maintaining their water systems and will offer technical assistance in the engineering of water systems for small communities. Open solicitation for bids will follow.

Rep. Jack Begley, D-Goodwell; Rep. Randall Erwin, D-Nashoba; Rep. M.C. Leist, D-Morris; Rep. Elmer Maddux, R-Lawton; and Rep. Tommy Thomas, D-Atoka and representatives of the ORWA and the OWRB attended the study.

The group plans to meet again to determine if the appropriation of more funds or the creation of new legislation will be needed to help the smaller communities get their water demands met.

Materials handed out at the meeting, including the audit and bid specification, are available from Legislative Information Network. You may e-mail, fax or call in your request.