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AICPA Asks Congress for Retirement Plan Simplification

ERISA

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The AICPA recently sent a comment letter to the Senate Finance Committee Tax Reform Working Group on Savings and Investment regarding simplification of employer-sponsored retirement plans and individual retirement accounts. The letter contained key requests as a result of the current issues and limitations facing both the plan sponsor and the plan participant. The comment letter urged Congress to consider the following measures:

1. Create a Uniform Employee Contributory Deferral Plan. Currently, there are four employee contributory deferral plans: 401(k), 03(b), 457(b), and SIMPLE plans. Having four variations of the same plan type causes confusion for many plan participants and employers.
2. Eliminate Certain Nondiscrimination Tests on Employee Pre-tax and Roth Deferrals for 401(k) Plans, Matching Contributions - Nondiscrimination tests artificially restrict the amount that higher-paid employees are entitled to save for retirement on a tax-preferred basis.
3. Eliminate the Top-Heavy Rules - Top-heavy rules constrain the adoption of 401(k) and other qualified retirement plans by small employers.
4. Create a Uniform Rule Regarding the Determination of Basis in Distributions - Currently, depending on the plan type, there are different methodologies used to determine basis in a distribution.
5. Create a Uniform Attribution Rule - Currently, the rules of attribution are governed by different sections of the IRC and each have slight subtleties that are used for different purposes. AICPA encourages Congress to use IRC Section 267(c) as the rule of attribution for qualified retirement plans, since it is easier to apply and in many cases broader than the more complicated IRC Section 318 rules.
5. Create a Uniform Definition of Owners - Currently, there are different definitions for the terms "highly compensated employee" and "key employee."
7. Change the Required Minimum Distribution Rules During Life and Remove Half-Year Age References - AICPA recommends that Congress increase the age at which plan participants and IRA account holders must begin taking distributions from their retirement plan accounts from 70 $\frac{1}{2}$ to 80, or changing the age at which participants are required to begin taking distributions from 70 $\frac{1}{2}$ to 80 and only if the account balance exceeds \$500,000. At a minimum, the rules should be modified to tie initial distributions to a specific birthday as opposed to the current regulation, which utilize a "half-year birthday" convention.
3. Create Uniform Rules for Early Withdrawal Penalties - There are currently different rules governing penalties, depending on whether an account is an IRA or a qualified plan.

The AICPA's suggestions would encourage the operation of qualified retirement plans by small businesses, expanding retirement savings for all employees, by simplifying federal tax laws and regulations governing retirement plans that are overly complex.

Contact us with additional questions regarding the AICPA's suggestions regarding the

simplification of employer-sponsored retirement plans and individual retirement accounts.

Source: AICPA Employee Benefit Plan Audit Quality Center Alert (4/28/15)

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