An **MRP Plans, Inc.** **update…** *December 2018*

End of year thoughts...

We announced earlier in the year that we'd be doing more communications through our outsourcing partner, Fort William, and that remains largely true, but we've found that for newsletters, this medium (Mailchimp) works best. It shouldn't make any difference to you but that's an explanation, in case you noticed and were wondering.

Key limitation numbers follow below; there are changes to quite a few, with the most notable, at least for most of our clients and participants, being the 401(k) deferral limit increasing to **$19,000** (plus catchup of $6,000 if over age 50 for a total of $**25,000)**.

> If you ever need to refer to these numbers, they are available on our website here: https://www.mrpplansinc.com/key-limitation-numbers/

New hardship rules were introduced with the Bipartisan Budget Act of 2018, which are effective for plan years beginning on or after January 1, 2019:

- The new rules *allow* (but do not require) plan sponsors to eliminate the 6-month suspension period on deferrals following a safe harbor hardship withdrawal in 2019. Suspensions are *not* permitted for 2020 and beyond.
- The new rules *allow* (but do not require) plan sponsors to eliminate the requirement that loans, if permitted, be taken first, before receiving a hardship distribution.
- Significantly, the new rules allow for hardships from sources not previously allowed, e.g. safe harbor contributions, as well as on earnings (previously, earnings were off the table, so someone who contributed $20,000 and had an account balance of $30,000 due to gains, could only take the $20,000 in contributions).
- The rules broaden the definition of hardship to include casualty loss expenses and disasters.
- The broad facts and circumstances test for non-safe harbor hardships is replaced with a similar but more objective standard.

With the understanding that a plan can generally be operated to permit certain provisions during the year as long as the plan is amended before the end of the year (and possibly later with law/rule changes such as these), we expect that our documents (your plans) will probably default to being more accommodating, *if consistent with the plan's existing provisions* and will be formally amended at a later date. We are waiting for input from our document provider and will discuss as needed.

Nerd alert: for **self-employed** participants, it appears that the deduction for **their**

own contributions has been moved from the Form 1040, line 28, to a new Schedule 1, line 28. Your accountants should definitely know this, at least by the time of filing. (For what it's worth, contributions **for employees** of sole proprietors and partnerships are taken on the **business** return.)

Best wishes for a happy and healthy holiday season from all of us!

Ed Snyder

Annual update

1) The key limitation numbers for 2019 (and the old 2018 numbers - several changes) are:

	2018	**2019**
Maximum annual benefit	$220,000	$225,000
Maximum annual contribution	$55,000	$56,000
Maximum 401(k) deferral	$18,500	$19,000
401(k) deferral catchup (age 50 or over)	$6,000	$6,000
Maximum SIMPLE deferral	$12,500	$13,000
SIMPLE catch-up (age 50 or over)	$3,000	$3,000
Maximum IRA contribution	$5,500	$6,000
IRA catch-up (age 50 or over)	$1,000	$1,000
Annual compensation limit	$275,000	$280,000
Social Security Wage Base	$128,700	$132,900
Medicare maximum	Unlimited	Unlimited
Comp. threshold for Highly Compensated Employees	$120,000	$125,000
Income (exclusion) threshold for SEPs	$600	$600

2) Year-end reminders...

~Employee deferrals (401(k) contributions) must be deposited as soon as they can reasonably be segregated from your business assets. ***Small plans (under 100 participants) have a safe harbor of 7 business days, and you simply must meet this safe harbor!*** <u>There is absolutely no reason not to make the deposits immediately after each payroll</u>; if participants did not have deferrals withheld then you would have paid the money in their paychecks. If we know of late deposits, we will advise you to make up for lost earnings and charge for those calculations.

~You should have a signed form on file for eligible participants who are not deferring to a 401(k) plan. The government thinks **you** should make contributions **for them** if they haven't properly elected not to contribute (!)

Employee deferrals (401(k) contributions) should generally be withheld from **all** pay (including bonuses). (For instance, if a participant has elected a 10% withholding rate, you should withhold 10% of bonuses as well as regular pay.) *We have a handful of plans where this does not apply, so check with us if you're not sure.*

~***Remember*** to check the appropriate boxes on your W-2s for employees who are covered by your plans...this can sometimes get a bit tricky, especially for profit sharing plans which make contributions after the end of the year, so call if you're not sure.

~***Remember***, when you get your 5500 tax return postcard from the DOL, you do **not** have to send it to us.

~If you'd like to see a trial allocation of a profit sharing contribution, or estimated required contributions to a pension plan, ***call*** *or* ***e-mail*** *or* ***fax us*** an estimated census (names, compensations, dates of termination if applicable).

~***Please*** be sure to include all employees on your year-end census (for calendar year plans, we mail or email blank forms in early January). We like to know about all part-time employees, even if you think they'll never enter the plan. If you have "leased employees" or work with "independent contractors", these individuals may have to be covered, or at least considered in certain coverage and participation tests. (Although true independent contractors are not employees, we sometimes run across a client or prospective client who says they have no employees, but then the phone is answered by someone else. If that someone else is paid hourly and works in your office, he or she is most likely an employee in the eyes of the Employee Benefits Security Agency and the IRS.) ***Please call*** if you have any questions about this area.

~In general, you **MUST** maintain a fidelity bond for the greater of 10% of plan assets or 100% of the assets that are not "Qualifying Plan Assets" (generally, "Qualifying Plan Assets" are assets held at a financial institution, and plan loans). Most of our clients' assets are "Qualifying Plan Assets", but you must nevertheless make sure that you maintain the appropriate bond! We look at this each year, but the minimum bond is supposed to be in place at the **beginning** of the year, and we might not recognize a deficiency until we do the review during the (next) year.

3) Terminated participants

Terminated participants are paid according to the terms of your plan document - in most cases, after the end of the plan year in which they terminate, or later. It's a good idea to remind these people, when they leave, that they have plan benefits and should keep you posted as to their whereabouts. (I know, they're the last ones you want to keep in touch with, but it saves some problems down the road. And no, you can't just hope they disappear and use their money for other participants!) We often have problems finding these "lost" participants, and as always, an ounce of prevention is worth a pound of cure.

4) **Tax withholding and 1099-R reporting**

If your plan is on a self-directed platform, tax withholding and Form 1099-R distribution reporting will generally be handled by the investment custodian and you don't have to do anything.

Otherwise, we will assist you with the withholding through EFTPS (Electronic Federal Tax Payment System) as required under IRS rules - checks are payable to us for processing through our system (just follow our directions). We outsource that reporting for electronic filing...which means you don't have to do anything except file copies that will be sent to you! (However, if there was withholding during the year, you still have to file Form 945, which reconciles the deposits made during the year. We will prepare this form for you with filing instructions.)

MRP Plans, Inc.
1670 Whitehorse-Hamilton Square Road, Suite 2
Hamilton, NJ 08690 • Phone (609) 689-9400 • Fax (609) 689-0140
mrpplansinc.com
admin@mrpplansinc.com