

SARSEP CHECKLIST



This Checklist is *not* a complete description of all plan requirements, and should *not* be used as a substitute for a complete plan review.

For Business Owner's Use

(DO NOT SEND THIS WORKSHEET TO THE IRS)

Every year it is important that you review the requirements for operating your Salary Reduction Simplified Employee Pension (SARSEP). This Checklist is a "quick tool" to help you keep your plan in compliance with many of the important tax rules. Underlined text below will link you to Internet information.

1. Was your SARSEP established prior to January 1, 1997, and subsequently amended for current law? Yes No

No new SARSEPs can be established after 1996. SARSEPs should be updated to benefit from the new law.

2. Do you have 25 or fewer eligible employees? Yes No

Only businesses with 25 or fewer eligible employees can contribute to a SARSEP.

3. Are all employees who are at least age 21, worked for you in at least 3 of the last 5 years, and have received at least \$450 during the year in compensation included in the plan? Yes No

Employees of other businesses you and/or your family members own may have to be treated as employees when determining who is an eligible employee under the SARSEP.

4. Have you given all of your eligible employees information about the SARSEP? Yes No

You must give your employees certain information about the SARSEP, including a copy of the SARSEP document. Form 5305A-SEP is your SARSEP document if you use the model form.

5. Are all employee elective deferrals within the appropriate limit: \$12,000 for 2003, \$13,000 for 2004, \$14,000 for 2005? Yes No

For employees age 50 or over, additional catch-up contributions of up to \$2,000 can be made for 2003, \$3,000 for 2004, and \$4,000 for 2005.

6. Do 50% or more of all eligible employees make employee elective deferrals? Yes No

At least half of your eligible employees must make employee elective deferrals to the SARSEP.

7. Are total contributions (employee elective deferrals and nonelective employer contributions) no more than 25% of compensation? Yes No

For 2002 and 2003, contributions are limited to the lesser of 25% of compensation or \$40,000. The dollar amount is adjusted annually for changes in the cost of living. The amount is \$41,000 for 2004. SARSEPs do not permit employers to make matching contributions to participants' accounts.

8. Did you deposit employee elective deferrals timely? Yes No

Employee elective deferrals must be remitted to the appropriate financial institution as soon as possible but, in any event, no later than 15 days following the month in which the employee would have otherwise received the money.

9. Did you perform the annual average deferral percentage test? Yes No

The amount deferred each year by each highly compensated employee as a percentage of pay (the deferral percentage) cannot exceed 125% of the average deferral percentage of all eligible nonhighly compensated employees.

10. Have you made required top-heavy minimum contributions to the SARSEP? Yes No

Refer to your plan document for information. Most plans are deemed top-heavy, but some plans require annual testing.

If you answered "No" to any of the above questions, you may have a mistake in the operation of your SARSEP. Many mistakes can be corrected easily, without penalty and without notifying the IRS.

■ contact your benefits professional

■ visit the IRS at www.irs.gov/ep

■ call the IRS at (877) 829-5500



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