

# 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) plan. Use this checklist to help you keep your plan in compliance with many of the important rules. Click on "[\(More\)](#)" in any of the following questions for additional information (including examples) on how to find, fix and avoid each mistake. See [www.irs.gov/ep](http://www.irs.gov/ep) for online versions of the checklists, Fix-It Guides and other resources for SARSEPs and other plan types.

**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, however, existing plans need to be updated for new law.

[\(More\)](#)

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

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

[\(More\)](#)

**3. Are all eligible employees (those who are at least age 21, worked for you in at least 3 of the last 5 years and have received at least \$550 during the year in compensation) participating 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.

[\(More\)](#)

**4. Are you determining each eligible employee's compensation using the definition in your SARSEP document?** Yes  No

A plan's definition of compensation must satisfy applicable rules for determining the amount of contributions.

[\(More\)](#)

**5. Are all employee elective deferrals within the appropriate limit as defined under IRC §402(g) for the calendar year (\$16,500 in 2009 and 2010) and have any excess deferrals been distributed ?** Yes  No

Employees age 50 or over may also make additional catch-up contributions of up to \$5,500 for 2009 or 2010.

[\(More\)](#)

**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.

[\(More\)](#)

**7. Are total contributions (employee elective deferrals and nonelective employer contributions) limited as required by the Internal Revenue Code?** Yes  No

For 2009 and 2010 contributions are limited to the lesser of 25% of compensation or \$49,000. SARSEPs do not permit employers to make matching contributions to participants' accounts.

[\(More\)](#)

**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.

[\(More\)](#)

**9. Did you pass the annual 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.

[\(More\)](#)

**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.

[\(More\)](#)

**If you answered "No" to any of the above questions, you may have a mistake in the operation of your SARSEP. This list is only a guide to a more compliant plan, so answering "Yes" to each question may not mean your plan is 100% compliant. Many mistakes can be corrected easily, without penalty and without notifying the IRS.**

■ [contact your tax advisor](#)

■ [visit the IRS at www.irs.gov/ep](http://www.irs.gov/ep)

■ [call the IRS at \(877\) 829-5500](tel:8778295500)