Abstract: It's a well-known fact that having a good retirement plan can help businesses retain their best and brightest employees. But the uncertainty involved with finding the best plan for a business may have owners sitting on the fence. This article provides key information that will help them decide which side of the fence they want to be on. Whether it's going with a 401(k), a SIMPLE IRA or SIMPLE 401(k), a SEP-IRA, or a Roth 401(k), this article will be a good resource in the decision-making process.

Still sitting on the fence?
Picking the best retirement plan for your business

It's common business knowledge that the key to getting, and keeping, good employees is to offer a benefit package they'll appreciate. But you also want to make sure that you — as the owner — get all the tax breaks you're entitled to.

A retirement plan is a good place to start. Whether yours is a new business just starting out or an existing business now ready to set up a plan, many of the considerations are the same.

Not one-size-fits-all

Retirement plans aren't a one-size-fits-all proposition. Most small to midsize businesses implement 401(k) plans, Savings Incentive Match Plans for Employees (SIMPLEs), and Simplified Employee Pension (SEP) IRAs for their employees. Regardless of the plan, employer contributions are deductible, employee contributions are pretax and plan funds grow tax-deferred.

To determine which plan is best for your business, you'll need to consider a variety of factors. Tax treatment and contribution limits are obvious concerns. But other factors also matter: company size and employee limits, employee age and turnover, employee compensation and company profits, flexibility of contribution amounts, treatment for owners and other highly compensated employees, reporting requirements, and administrative costs.

401(k) plans top the list

401(k)s are by far the most popular form of retirement plan. They are contributory plans — meaning the employee makes contributions through redirected salary. You can choose to match the employee's contribution, up to certain limits.

401(k)s have a higher employee contribution limit than either SIMPLEs or SEP-IRAs — for 2010, contribution limits are $16,500, plus $5,500 for the age 50 and over catch-up amount.

Although the 401(k) has the advantage of higher employee contribution limits, it also has the most reporting requirements, making it more costly to create and maintain. Because annual requirements include filing a tax return (Form 5500) and compliance testing, most businesses turn over plan administration to an outside professional.

Employees are always 100% vested in their contributions to their account. Although amounts redirected to a 401(k) aren't currently subject to income tax, the earnings are subject to FICA and Medicare tax.

You have some flexibility in determining whether to match your employees' contributions. Employer contributions can vest over time, based on plan schedules. If the plan is top-heavy (favoring highly compensated employees), employer contribution matching and vesting become subject to IRS requirements. To maximize your own contributions — as the owner — you'll need to monitor and encourage employee contributions, perhaps by providing an employer match.

Roths may be the way to go

If your plan is set up to accommodate a Roth 401(k), participants in a 401(k) or 403(b) plan may designate some, or all, of their elective contributions as a Roth contribution. Roth contributions will be taxed (not tax-deferred as in a traditional 401(k)), but all qualified withdrawals will be tax free, which means participants may never have to pay tax on growth in the plans. Plus, there are no required distributions.

To have a qualifying Roth contribution program, your retirement plan must establish a separate designated Roth account for each employee and maintain separate recordkeeping for each account.

SIMPLEs not just a runner-up

There are two types of SIMPLEs: a SIMPLE IRA and a SIMPLE 401(k). Both are contributory plans allowing employee contributions for 2010 of up to $11,500, indexed for inflation, and an additional $2,500 for employees age 50 and older.

With a SIMPLE, you're required to match employee contributions up to 3% of pay, or you can choose to contribute 2% of pay for each employee. This matching is mandatory, unlike with the traditional 401(k). All contributions vest immediately.

SIMPLEs have a major advantage over 401(k)s in that they are, in fact, simple. With no annual tax return filing, and minimal documentation requirements, SIMPLEs are easier to handle, and you may avoid administration fees altogether. However, due to their lower contribution limit, SIMPLE plans may not be a good choice for owners who are seeking to maximize their retirement plan contributions.

SEP-IRAs funded entirely by employer

Unlike the SIMPLE and 401(k) plans, the SEP-IRA is a noncontributory plan — meaning no employee contributions are allowed. The SEP-IRA is entirely funded by employer contributions. Contributions are discretionary, but can't exceed a specified limit — 25% of an eligible employee's compensation up to a maximum of $49,000 in 2010. Participants are immediately vested.

SEP-IRAs are easy and inexpensive to set up and administer. No annual tax return is required, and you have until the due date of the company tax return (including extensions) to make your contribution. The company must include all eligible employees, but, because employer contributions are optional, contributions can be lower (or skipped) in a year in which your company is strapped for cash.

A business owner who's self-employed, or employs primarily family members, may find that a SEP-IRA provides significant retirement funding benefits. When there are other employees who must be covered, the employer contribution may be viewed as too expensive.

You may get a credit for plan startup

If you're ready to take the plunge and implement a retirement plan, Uncle Sam may help with some of the costs. Small employers — those with 100 or fewer employees — may be eligible for a credit of up to 50% of the first $1,000 spent on retirement plan administration and education for employees. This credit is available for the first three years of the plan — amounting to a maximum of $500 credit for each year.

We've covered only a few retirement plans. Other possibilities include defined benefit plans and other profit sharing or defined contribution plans. The greatest benefits may result from a mix-and-match approach. Combining plans could increase the allowable contributions for owners. You may also want to evaluate nonqualified deferred compensation arrangements to meet your retirement funding goals.

Abstract: Lending money to family members may be personal, but it pays to treat loans like business. Otherwise, the "lender" could owe taxes on income he or she never received and gifts he or she never intended to make. Structured properly, however, an intrafamily loan can be a great way to help family members buy a home, start a business or meet any number of financial needs. It can also be an effective estate planning tool. This article reviews the ins and outs of intrafamily loans, including documentation and interest rates.

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