Frequently Asked Questions

Information from irs.gov last reviewed or updated: 03-Jan-2022

A SIMPLE IRA plan provides small employers with a simplified method to contribute toward their employees' and their own retirement savings. Employees may choose to make salary reduction contributions and the employer is required to make either matching or nonelective contributions. Contributions are made to an Individual Retirement Account or Annuity (IRA) set up for each employee (a SIMPLE IRA).

A SIMPLE IRA plan account is an IRA and follows the same investment, distribution and rollover rules as traditional IRAs. See the IRA FAQs.

See also IRS Publication 560, IRS Publication 590-A, IRS Publication 590-B and IRS Notice 98-4 PDF for detailed information on SIMPLE IRA plans and SIMPLE IRAs.

These FAQs provide general information and shouldn't be cited as legal authority. Because these answers don't apply to every situation, yours may require additional research.

- Establishing a SIMPLE IRA plan
- Participation
- Compensation
- Contributions
    - Employee contributions
    - Employer contributions
    - Depositing and deducting contributions
    - Reporting and notification requirements
- Distributions
- Investments (same as IRA rules - see IRA FAQs)
- Rollovers
- Terminating a SIMPLE IRA plan

Establishing a SIMPLE IRA Plan

Who can establish a SIMPLE IRA plan?

Any employer (including self-employed individuals, tax-exempt organizations and governmental entities) that had no more than 100 employees with $5,000 or more in compensation during the preceding calendar year (the "100-employee limitation") can establish a SIMPLE IRA plan. For purposes of the 100-employee limitation, you must take into account all employees employed at any time during the calendar year, including those employees who have not met the plan's eligibility requirements (see Participation FAQs).

If you have more than 100 employees and you're not in a grace period (see below) for your SIMPLE IRA plan, you must correct this mistake.

How do I establish a SIMPLE IRA plan?

You must complete three basic steps to set up a SIMPLE IRA plan.

1. Adopt a SIMPLE IRA plan document by signing one of these documents:
   - IRS model SIMPLE IRA plan using either
     - Form 5305-SIMPLE PDF (if you require all contributions to be deposited initially at a designated financial institution) or
     - Form 5304-SIMPLE PDF (if you permit each employee to choose the financial institution for receiving contributions).
   - IRS-approved prototype SIMPLE IRA plan offered by banks, insurance companies and other qualified financial institutions.
2. Provide each eligible employee with certain information about the SIMPLE IRA plan and SIMPLE IRA where you'll deposit employee contributions prior to the employee election period (generally, 60 days prior to January 1).
3. Set up a SIMPLE IRA for each eligible employee using either IRS model:
   - Form 5305-S (a trust account) or
   - Form 5305-SA (a custodial account).

You can set up SIMPLE IRAs with banks, insurance companies or other qualified financial institutions. The employee owns and controls the SIMPLE IRA.

Is there a deadline to set up a SIMPLE IRA plan?

You can set up a SIMPLE IRA plan effective on any date between January 1 and October 1, provided you (or any predecessor employer) didn't previously maintain a SIMPLE IRA plan. If you're a new employer that came into existence after October 1 of the year, you can establish the SIMPLE IRA plan as soon as administratively feasible after your business came into existence. If you previously established a SIMPLE IRA plan, you must set up a new one effective on January 1. The effective date cannot be before you actually establish the plan.

Can I maintain my SIMPLE IRA plan on a fiscal-year basis?

You may only maintain a SIMPLE IRA plan on a calendar-year basis.

Is there a grace period if the plan sponsor ceases to satisfy the 100-employee limitation?

If you previously maintained a SIMPLE IRA plan, you satisfy the 100-employee limitation for the 2 calendar years immediately following the calendar year for which you last satisfied the 100-employee limitation. There are special rules if the failure to satisfy the 100-employee limitation is due to an acquisition, disposition or similar transaction involving your business. If this is your case, see your tax advisor.

When must the SIMPLE IRA be set up for an employee?

A SIMPLE IRA must be set up for an employee before the first date by which you must deposit a contribution into the employee's SIMPLE IRA.

What if an eligible employee entitled to a contribution is unwilling or unable to set up a SIMPLE IRA?

If an eligible employee who is entitled to a contribution under a SIMPLE IRA plan is unwilling or unable to set up a SIMPLE IRA with any financial institution prior to the date on which you must contribute to the employee's SIMPLE IRA, you should establish a SIMPLE IRA for the employee with a financial institution that you select.

Can I contribute to my SIMPLE IRA plan if I maintain another retirement plan?

Generally, you can't contribute to a SIMPLE IRA plan for a calendar year if you maintain another retirement plan and any of your employees receives an allocation or accrues a benefit under the other plan during that calendar year (the "one-plan requirement").

However, you can have a SIMPLE IRA plan even though you maintain another retirement plan if:

- The other plan is only for employees covered under a collective bargaining agreement, and the SIMPLE IRA plan excludes these employees; or
- Your business was part of an acquisition, disposition or similar transaction during the current calendar year or the 2 prior calendar years, and only your separate employees participate in the SIMPLE IRA plan.

If you maintain another retirement plan and one of the exceptions above does not apply, you must correct this mistake.

Do profit-sharing contributions (for a profit-sharing plan with a calendar-year plan-year) allocated for last calendar year but deposited this year prevent me from meeting the one-plan requirement?

No, deposits made in a calendar year don't mean that you made contributions to or accrued benefits under another retirement plan. For the SIMPLE IRA rules, you're treated as having another plan for the year for which contributions are allocated, but not the year they're deposited. You can set up a SIMPLE IRA plan for this year if you meet the other SIMPLE IRA plan requirements and your employees don't receive any allocations or accrue benefits from another plan for this year.

If you have a non-calendar-year profit-sharing plan, you can't have a SIMPLE IRA plan this year if your employees received plan allocations for a plan year that overlaps (begins or ends within) this calendar year.

Do I ever need to update my SIMPLE IRA plan document?

It's your responsibility to ensure that you keep your plan up-to-date with current law. If you set up your plan with a prototype plan document, you should have received an amended plan document from your financial institution. If you believe the law affecting your plan has changed and you haven't received a new plan document, contact the financial institution. If you set up your plan with an IRS Form 5304 or 5305-SIMPLE, adopt a new form when the instructions require it.

If you haven't updated your SIMPLE IRA plan for the most current law changes, you must correct this mistake.

Participation

Which employees are eligible to participate in my SIMPLE IRA plan?

All employees who received at least $5,000 in compensation from you during any 2 preceding calendar years (whether or not consecutive) and who are reasonably expected to receive at least $5,000 in compensation during the calendar year, are eligible to participate in the SIMPLE IRA plan for the calendar year. If you've excluded eligible employees from your SIMPLE IRA plan, find out how to correct this mistake.

May a participant "opt out" of a SIMPLE IRA plan?

An employee may not "opt out" of participation. Of course, any eligible employee may choose not to make salary reduction contributions for a year, in which case the employee would accrue no employer matching contributions for the year but would receive an employer nonelective contribution for the year if the plan provides for it.

Are there employees I can exclude from my SIMPLE IRA plan?

You may choose to exclude employees who are:

1. covered by a collective bargaining agreement, if retirement benefits were the subject of good faith bargaining between you and the employee representatives;
2. covered by a collective bargaining agreement between you and air pilots represented in accordance with Title II of the Railway Labor Act; and
3. nonresident aliens and who received no U.S. source earned income.

May I impose less restrictive eligibility requirements?

You may eliminate or reduce the prior year compensation requirement, the current year compensation requirement, or both. For example, you could allow participation for employees who received $3,000 in compensation during any preceding calendar year. However, you cannot impose any other conditions on participation.

May an employee participate in a SIMPLE IRA plan if he or she also participates in a plan of a different employer for the same year?

An employee may participate in a SIMPLE IRA plan even if he or she also participates in a plan that is sponsored by a different employer for the same year. However, the employee's salary reduction contributions are subject to the limitations of section 402(g), which provides an aggregate limit on the exclusion for elective deferrals for any individual. Similarly, an employee who participates in a SIMPLE IRA plan and an eligible 457(b) deferred compensation plan is subject to the limitations described in section 457(c). You are not responsible for monitoring compliance with either of these limitations.

Compensation

Under the SIMPLE IRA plan rules, what's the definition of compensation for an individual who is not self-employed?

For an individual who is not self-employed, compensation means:

- wages, tips, and other compensation from the employer subject to income tax withholding under section 3401(a),
- amounts described in Internal Revenue Code Section 6051(a)(8), including elective contributions made under a SIMPLE IRA plan, and
- compensation deferred under a 457 plan.

Compensation doesn't include amounts deferred under a section 125 cafeteria plan.

For purposes of applying the 100-employee limitation, and in determining whether an employee had $5,000 in compensation for any two preceding years, an employee's compensation also includes the employee's elective deferrals under a 401(k), SARSEP or 403(b) plan.

If you've used an incorrect amount of compensation to calculate a participant's SIMPLE IRA plan contribution, find out how to correct this mistake.

Under the SIMPLE IRA plan rules, what's the definition of compensation for a self-employed individual?

For purposes of the SIMPLE IRA plan rules, a self-employed individual's compensation means net earnings from self-employment determined under Internal Revenue Code Section 1402(a), prior to subtracting any contributions made to the SIMPLE IRA plan for the individual.

If you've used an incorrect amount of compensation to calculate a participant's SIMPLE IRA plan contribution, find out how to correct this mistake.

Contributions

What types of contributions may be made to a SIMPLE IRA plan?

Each eligible employee may make a salary reduction contribution and the employer must make either a:

- matching contribution or
- nonelective contribution.

No other contributions may be made under a SIMPLE IRA plan.

Can contributions made under a SIMPLE IRA plan be made to any type of IRA?

Contributions under a SIMPLE IRA plan may only be made to a SIMPLE IRA, not to any other type of IRA.

Employee contributions

What is a salary reduction contribution?

A salary reduction contribution is an amount an employee elects to have contributed to his or her SIMPLE IRA, rather than paid in cash. Employers must permit their employees to elect to have salary reduction contributions made at an employee-specified level, expressed as a percentage of compensation for the year or as a specific dollar amount. An employer may not place any restrictions on the amount of an employee's salary reduction contributions, except to comply with the annual limit on salary reduction contributions.

How much may an employee defer under a SIMPLE IRA plan?

An employee may defer up to $13,500 in 2020 and 2021 ($13,000 in 2018; $12,500 in 2016 – 2018, subject to cost-of-living adjustments for later years). Employees age 50 or over can make a catch-up contribution of up to $3,000 in 2016 - 2021 (subject to cost-of-living adjustments for later years). The salary reduction contributions under a SIMPLE IRA plan are "elective deferrals" that count toward the overall annual limit on elective deferrals an employee may make to this and other plans permitting elective deferrals.

Employer contributions

How much must I contribute for my employees participating in our SIMPLE IRA plan?

You're generally required to either:

1. match each employee's salary reduction contribution on a dollar-for-dollar basis up to 3% of the employee's compensation (not limited by the annual compensation limit), or
2. make nonelective contributions of 2% of the employee's compensation up to the annual limit of $290,000 for 2021 ($285,000 for 2020), subject to cost-of-living adjustments in later years. If you choose to make nonelective contributions, you must make them for all eligible employees whether or not they make salary reduction contributions.

Can I reduce the 3-percent matching contribution?

You may elect to reduce the 3-percent matching contributions for a calendar year, but only if:

1. The limit isn't reduced below 1 percent;
2. The limit isn't reduced for more than 2 years out of the 5-year period that ends with (and includes) the year for which the election is effective; and
3. You notify employees of the reduced limit within a reasonable time before the 60-day election period during which employees can enter into salary reduction agreements.

To determine if the limit was reduced below 3 percent for a year, any year before the first year in which you (or a predecessor employer) maintain a SIMPLE IRA plan will be treated as a year for which the limit was 3 percent. If you choose to make nonelective contributions for a year, that year also will be treated as a year for which the limit was 3 percent.

Can I suspend, reduce or increase the amount of matching contributions to our SIMPLE IRA plan in the middle of the year?

You cannot suspend or modify your employer matching contributions mid-year. You must make the contributions that you promised your employees in the SIMPLE IRA plan notice.

May I make nonelective contributions instead of matching contributions?

As an alternative to making matching contributions under a SIMPLE IRA plan, you may make nonelective contributions equal to 2 percent of each eligible employee's compensation for the entire calendar year. You must make the nonelective contributions for each eligible employee regardless of whether the employee elects to make salary reduction contributions for the calendar year. You may, but aren't required to, limit nonelective contributions to eligible employees who have at least $5,000 (or some lower amount selected by the employer) of compensation for the year.

You may substitute the 2-percent nonelective contribution for the matching contribution for a year, only if:

1. You notify eligible employees that a 2-percent nonelective contribution will be made instead of a matching contribution; and
2. This notice is provided within a reasonable time before the 60-day election period during which employees can enter into salary reduction agreements.

Do compensation limits apply when calculating the 2-percent nonelective contribution?

For purposes of the 2-percent nonelective contribution, the compensation taken into account must be limited to $290,000 for 2021 ($285,000 for 2020), subject to cost-of-living adjustments in later years.

Do I have to contribute for a participant who isn't employed on the last day of the year?

Yes, you do. A SIMPLE IRA plan cannot have a last-day-of-the-year employment requirement. If the employee is otherwise eligible, they must share in any SIMPLE IRA contribution. This includes eligible employees who die or quit working before the contribution is made.

If an employee starts or stops salary reduction contributions in the middle of the year, can I make my 3% match based only on the compensation earned during the period they actually contributed?

No, you must base your SIMPLE IRA plan employer matching contribution on the employee's entire calendar-year compensation, regardless of when the employee starts or stops contributing during the year. The maximum matching contribution is always 3% of the employees' compensation for the entire calendar year. Matching contributions may be made on a per-pay-period basis, or by the due date of the employer's tax return (including extensions).

Example: Bob's annual salary is $50,000 and he starts contributing to his employer's SIMPLE IRA plan on September 1. He contributes $1,536 through December 31. Bob's employer must match Bob's contributions up to 3% of Bob's calendar-year compensation, or $1,500 (3% of $50,000). It doesn't matter that Bob only contributed to the plan during the last 4 months of the calendar year.

Example: John earns $60,000 a year. He made a salary reduction contribution of $12,000 to his employer's SIMPLE IRA plan from January 1 to September 30. John's employer is required to match John's contribution up to 3% of his entire calendar-year compensation or $1,800 (3% of $60,000), even though John stopped contributing to the plan on September 30.

Example: Joe's annual salary is $70,000 and he contributed 1% of his compensation, or $700, to his employer's SIMPLE IRA plan. Joe's employer must make a matching contribution of $700 because the employer is only required to match the amount Joe actually contributes during the year up to a maximum of 3% of his calendar-year compensation.

Can I contribute to a SIMPLE IRA of a participant over age 72?

Yes, you must. Employees who are age 70 ½ or over may make salary deferral contributions to their SIMPLE IRAs. Employers must continue to make matching or nonelective contributions to employees' SIMPLE IRAs even after an employee reaches age 72 (70 1/2 if the employee reached age 70 ½ before January 1, 2020) must also begin to take required minimum distributions from the account.

Employees may not be excluded from participating in a SIMPLE IRA plan based solely on their age.

What happens if I don't make the matching or non-elective contribution to the SIMPLE IRA plan?

A SIMPLE IRA plan must satisfy certain rules to obtain favorable tax benefits. Failure to satisfy these rules, for example, by not making required contributions, can result in the loss of favorable tax benefits for you and the participants. You can correct certain SIMPLE IRA plan failures. For additional information, review our SIMPLE IRA Plan Fix-It Guide and visit Correcting Plan Errors.

Depositing and deducting contributions

When must I deposit the salary reduction contributions?

You must deposit employees' salary reduction contributions to their SIMPLE IRAs within 30 days after the end of the month in which the amounts would otherwise have been payable to the employees in cash, according to IRS rules (IRC section 408(p)(5)(A)(i)). For self-employed persons with no common-law employees, the latest date for depositing salary reduction contributions for a calendar year is 30 days after the end of the year, or January 30th.

The Department of Labor rule for deposit of the salary reduction contributions may be stricter. They do have a 7-business day safe harbor rule.

When must I make the matching and nonelective contributions?

You must make matching and nonelective contributions to the financial institution maintaining the SIMPLE IRA no later than the due date for filing your business's income tax return, including extensions, for the taxable year that includes the last day of the calendar year for which you made the contributions. If you extend your tax return, then you have until the end of that extension period to deposit contributions, regardless of when you file the tax return. However, if you did not deposit the contribution timely, you must amend the tax return and pay any tax, interest and penalties that may apply.

How much of the contributions made to employees' SIMPLE IRAs may I deduct on my business's tax return?

You may deduct all contributions made to your employees' SIMPLE IRAs on your tax return.

Can employees deduct the salary reduction contributions they make to the SIMPLE IRA plan on their Form 1040?

No, employee contributions to a SIMPLE IRA plan are not deductible by participants from their income on their Form 1040. Employee salary reduction contributions to a SIMPLE IRA are not included in the "Wages, tips, other compensation" box of Form W-2, Wage and Tax Statement PDF, and are not reported as income on your Form 1040.

If you are a sole proprietor or partner, however, you would deduct your own salary reduction contributions and your own matching or nonelective contributions on Form 1040, line 28.

If my SIMPLE IRA plan fails to meet the SIMPLE IRA plan requirements, are the tax benefits for me and my employees lost?

Generally, tax benefits are lost if the SIMPLE IRA plan fails to satisfy the Internal Revenue Code requirements. However, you may be able to retain the tax benefits if you use one of the IRS correction programs to correct a failure. In general, when correcting a failure under the program, the correction should put employees in the position they would have been had the failure not occurred.

Reporting and notification requirements

What is the SIMPLE IRA employee notification requirement?

Prior to the employees' 60-day election period (which generally begins on November 2nd prior to each calendar year), you must provide to each eligible employee:

- Details concerning the employee's opportunity to make or change a salary reduction;
- Your decision to make either a matching or nonelective contribution; and
- A summary description (that the financial institution where the SIMPLE IRAs are maintained usually provides).

See IRS Publication 560 and the Instructions to Form 5305-SIMPLE PDF and Form 5304-SIMPLE PDF for information on the notification requirement.

Why is last year's SIMPLE IRA contribution that was made this year shown on this year's Form 5498 instead of last year's Form 5498?

The IRS requires that contributions to a SIMPLE IRA be reported on the Form 5498 for the year they are actually deposited to the account, regardless of the year for which they're made.

Distributions

May I withdraw amounts held in my SIMPLE IRA at any time?

Yes. Your employer can't require you to retain any portion of the contributions in your SIMPLE IRA or otherwise impose any withdrawal restrictions.

What are the tax consequences when I withdraw amounts from my SIMPLE IRA?

Generally, the same tax results apply to distributions from a SIMPLE IRA as to distributions from a regular IRA. However, a special rule applies to a distribution received from a SIMPLE IRA during the 2-year period beginning on the date on which you first participated in your employer's SIMPLE IRA plan. Under this special rule, if the additional income tax on early distributions applies to a distribution within this 2-year period, then the rate of additional tax under this special rule is increased from 10 percent to 25 percent. If one of the exceptions to application of the early distribution tax under section 72(t) applies (for example, for amounts paid after age 59 1/2, after death, or as part of a series of substantially equal payments), the exception also applies to distributions within the 2-year period and the 25-percent additional tax does not apply.

When does the 2-year period begin?

The 2-year period begins on the first day on which your employer deposits contributions in your SIMPLE IRA.

For additional distribution FAQs see IRA FAQs.

What additional taxes may apply to SIMPLE IRA withdrawals?

Unless you qualify for an exception, you'll have to pay an additional 10% tax on the amount you withdraw from your SIMPLE IRA. This additional tax increases to 25% if you make the withdrawal within 2 years from when you first participated in the SIMPLE IRA plan.

You don't have to pay the additional 10% or 25% tax if:

- You're age 59½ or older when you withdraw the money
- Your withdrawal is **not** more than:
  - Your unreimbursed medical expenses that exceed 10% of your adjusted gross income for 2021 (7.5% for 2017-2020),
  - Your cost for your medical insurance while you're unemployed,
  - Your qualified higher education expenses, or
  - The amount to buy, build or rebuild a first home (up to $10,000)
- Your withdrawal is in the form of an annuity
- Your withdrawal is a qualified reservist distribution
- You're disabled
- You're the beneficiary of a deceased SIMPLE IRA owner
- The withdrawal is the result of an IRS levy

Can I transfer money from my SIMPLE IRA to another retirement account?

You may be able to transfer money in a tax-free rollover from your SIMPLE IRA to:

- another IRA (except a Roth IRA), or
- an employer-sponsored retirement plan (such as a 401(k), 403(b), or governmental 457(b) plan).

However, during the 2-year period beginning when you first participated in your employer's SIMPLE IRA plan, you can **only** transfer money to another SIMPLE IRA. Otherwise, you're considered to have withdrawn the amount and you must:

- include the amount in your gross income, and
- pay an additional 25% tax on this amount (unless you qualify for an exception (see above)).

After the 2-year period, you can also roll over SIMPLE IRA money into a Roth IRA, but you must include it in your income.

See the rollover chart PDF for a summary of your account transfer options.

Rollovers

Are there any special rollover rules that apply to a distribution from a SIMPLE IRA?

A distribution from a SIMPLE IRA during the 2-year period qualifies as a rollover contribution (and thus is not includable in gross income) only if the distribution is transferred into another SIMPLE IRA and satisfies the other requirements of section 408(d)(3) for treatment as a rollover contribution.

Can I transfer an amount from my SIMPLE IRA to another IRA in a tax-free trustee-to-trustee transfer?

During the 2-year period, you may transfer an amount in a SIMPLE IRA to another SIMPLE IRA in a tax-free trustee-to-trustee transfer. If, during this 2-year period, an amount is paid from a SIMPLE IRA directly to the trustee of an IRA that is not a SIMPLE IRA, then the payment is neither a tax-free trustee-to-trustee transfer nor a rollover contribution. The payment is a distribution from the SIMPLE IRA and a contribution to the other IRA that doesn't qualify as a rollover contribution. After the expiration of the 2-year period, you may transfer an amount in a SIMPLE IRA in a tax-free trustee-to-trustee transfer to an IRA that is not a SIMPLE IRA.

Terminating a SIMPLE IRA Plan

Other than the first year you set up your plan, SIMPLE IRA plans must be maintained for a whole calendar year. Once started, you must continue your SIMPLE IRA plan for the entire calendar year, funding all contributions promised in the employee notice.

If you decide your SIMPLE IRA plan no longer suits your business, consult with your financial institution to determine if another type of retirement plan might be a better match.

How do I terminate my SIMPLE IRA plan?

Step 1: Notify your employees within a reasonable time before November 2 that you'll discontinue the SIMPLE IRA plan effective the following January 1.

Step 2: Notify your SIMPLE IRA plan's financial institution and payroll provider that you won't be making SIMPLE IRA contributions for the next calendar year and that you want to terminate your contributions.

Step 3: You should keep records of your actions, but you don't need to notify the IRS that you have terminated the SIMPLE IRA plan.

Example: Acme Company decided on November 18, 2014, to terminate its SIMPLE IRA plan as soon as possible. The earliest effective date for the termination is January 1, 2016. Acme must notify its employees before November 2, 2015, that it won't sponsor a SIMPLE IRA plan for 2016.

Can I terminate or amend my SIMPLE IRA plan in the middle of the year?

No, you cannot end your plan in the middle of the calendar year. Once started, you must continue your SIMPLE IRA plan for the entire calendar year, funding all contributions promised in the employee notice.

Additional resources

- SIMPLE IRA plans
- Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans) ?
- Publication 4334, SIMPLE IRA Plans for Small Businesses PDF

Have a question about retirement plans? Contact us.