M E M O R A N D U M

TO: **All Benefits Staff**

FROM: **Bill**

DATE: **November 29, 2010**

RE: **2010 Keogh Contribution Worksheet**

Attached is the worksheet for calculating **NET SELF-EMPLOYMENT EARNINGS** and **2010 KEOGH PLAN CONTRIBUTIONS**. The calculation reflects the $245,000 compensation limit, the $49,000 dollar limitation, the 2010 taxable wage base ($106,800) and the extension of the Medicare tax (1.45%) to <u>all</u> earnings.

<u>NOTE</u>: Since none of the applicable limits changed from 2009, this 2010 worksheet is unchanged from 2009. The 2011 worksheet will also be unchanged.

Please note integrated/age-weighted/cross-tested plans will require modifications to this worksheet. Also, if the self-employed individual has W-2 wages subject to FICA tax from any employer, adjustments are required.

The split of contributions between Money Purchase (MP) and Profit Sharing (PS) Plans should be determined by using the line 7 figure which should be net of the combined plan contributions. **Please recall that, effective for Plan years beginning on/after January 1, 2002, the full 25% of pay deduction is available <u>solely</u> <u>in</u> <u>the</u> <u>PS Plan</u>. If you have not already done so, you should send any affected clients our "merger" letter for combining the MP into the PS.**

Partners and Sole Proprietors can receive matching contributions that do not count against the $16,500 401(k) elective deferral limit. These matching contributions will instead be counted as ***employer contributions*** that reduce such individuals' compensation for plan purposes. Also recall that in doing this calculation you start with the applicable gross earnings, apply the FICA and ***employer contribution*** offsets, <u>then</u> limit pay ("Net Pensionable Earnings") to $245,000.

NOTES REGARDING 2010 ALLOCATIONS TO 401(k)/PROFIT SHARING PLANS

1. Eligible Pay is <u>NOT</u> reduced by employee 401(k) deferrals in calculating the 25% of pay employer tax deductible limit.

2. The employer tax deductible limit does not include employee 401(k) deferrals.

3. The individual 415(c) limit (lesser of $49,000 or 100% of gross pay):

   (a) DOES include employee 401(k) elective deferrals

   (b) does NOT include "catch-up" deferrals ($5,500 maximum for employees age 50 or older any time in 2010).

Thus a 401(k) Profit Sharing Plan could provide up to $54,500 in pre-tax savings for 2010 for an employee age 50 or older with gross salary of $54,500 or more.

WORKSHEET TO DETERMINE 2010 CONTRIBUTION

FOR SELF-EMPLOYED INDIVIDUALS

Name of Client: ______________________________

1. Enter Net Profit (from Schedule C) or Net Earnings from Self-Employment (from Schedule K-1)
   {MAX = $304,701.56 for regular PSP or MP}* ____________

2. Net Self-Employment Earnings (net of ½ FICA tax offset) **

   (a) If Item #1 is greater than or equal to $115,640.94

   (i) Multiply item #1 by .98661, then
   (ii) Subtract $6,621.60 from (I)

   (b) If Item #1 is less than $115,640.94, multiply item #1 by .92935 ____________

3. For defined contribution plans enter the contribution percentage as a decimal (e.g., 20% = .20) *** ____________

4. Item #2 x Item #3 ____________

5. Add "1" to Item #3 ____________

6. 2010 Keogh Contribution (max. $49,000): Item #4 ÷ Item #5 ____________

7. Net Pensionable Earnings: Item #2 <u>minus</u> Item #6
   (Maximum $245,000) ____________

* Should already exclude plan contributions for other participants, if any.

** If the self-employed individual also has W-2 income, adjustments must be made to item #2. Use the Long Schedule SE (Form 1040) to determine the FICA offset to item #1 (Section B, Part I, Line 13 on the 2010 form.

*** In 2010 the maximum profit sharing contribution needed to generate the $49,000 maximum contribution is 20% based on a Schedule C/K-1 of $304,701.56 or more. Plans integrated at the wage base ($106,800) need a "base" percentage of 16.79% of pay plus 5.7% of pay in excess of the wage base, to generate the $49,000 maximum.

For defined benefit plans Item #2 should be used for the "package" which is equal to the sum of "Net Pensionable Earnings" (Item #7) and the "contribution" for the self-employed individual from the actuarial valuation.

<u>NOTE</u>: The <u>deductible</u> Keogh contribution (Item #6) cannot exceed the Net Schedule C/K-1 Profit/Earnings (Item #1). If the required contribution exceeds Item #1, the excess can be carried forward without the 10% excise tax on non-deductible contributions. Of course, the total contribution for Pension Plans still must be deposited within 8½ months of the plan year end REGARDLESS OF WHEN THE RELEVANT TAX RETURN IS DUE.

Calculations done by: ______________________________ On ______________

Checked by: ______________________________ On ______________

CALCULATION OF 2010 KEOGH CONTRIBUTION

The calculation of contributions for self-employed individuals must reflect the deduction of ½ of the Social Security taxes on self-employment earnings (SEE). The procedure is complicated by the two-tiered Social Security tax (*i.e.,* 12.4% of the first $106,800 of SEE, plus 2.9% of all SEE). The $245,000 compensation limit further complicates the calculation, regardless of the Plan type – Profit Sharing (PS) or Money Purchase (MP).

The 2010 Keogh contribution may be determined as follows *:

1. Enter Net Schedule C profit – but not more than $304,701.56 $ _________

2. (a) If item #1 is greater than or equal to $115,640.94 multiply item #1 by .98661 $ _________

   (b) Subtract from item #2 (a) $6,621.60 $ _________

3. If item #1 is less than $115,640.94 multiply item #1 by .92935 $ _________

4. For defined contribution plan enter the contribution rate percentage as a decimal, but not to exceed .25 $ _________

5. Multiply item #4 by item #2 (b) or item#3, whichever is applicable $ _________

6. Add one (1) to item #4 $ _________

7. Divide item #5 by item #6 equals the 2010 Keogh Contribution (maximum $49,000) $ _________

* NOTE: If the plan provides for contributions or allocations that are not pro rata on compensation (*e.g.*, the plan provides for permitted disparity, or is age-weighted or otherwise cross-tested), or the self-employed individual also has regular W-2 wages subject to FICA taxes *from any employer*, then the above method **requires modification.**