

SPECIAL NOTES FOR PLANS SPONSORED BY SELF EMPLOYED INDIVIDUALS SOLE PROPRIETORS, PARTNERSHIPS AND LLC/LLP TAXED AS PARTNERSHIP

Employer contributions (match, profit sharing and/or safe harbor contributions) are based on each self-employed individual's "net earned income." This calculation generally requires that your accountant provide our office with earned income before finalizing the tax return(s). After the year-end census is returned to our office, we will request the information noted below from your accountant. **If you are making any employer contributions to the plan for the year, your tax return should not be finalized until we complete our calculations.**

Sole Proprietor – we will need your earned income (generally your Schedule C income). If any pension expense has been deducted from this earned income, we will need the amount of this deduction. Often times, receiving a copy of the Schedule C will suffice. We will also need the amount of any W-2 or self-employment income from other businesses in order to calculate the self-employment deduction correctly.

Partnership (including LLC/LLP taxed as partnership) – we will need each partner's self-employment income prior to pension expense deduction. Generally this can be obtained from copies of the K-1, prepared prior to ANY pension deduction. If the K-1 income has already been reduced for the staff's pension expense, we will need to know the amount of this deduction and how it is allocated among the partners.

In addition to the above, we will also need the following "off-sheet" adjustments (if applicable):

- Gains/losses on sale of business property
- Depletion claimed on oil and gas properties
- Section 179 depreciation expenses deduction claimed
- Unreimbursed partnership expenses

We will also need to know the pension expense already deducted from the K-1 figures provided to us.

We will also need the amount of any W-2 or self-employment income from other businesses (for the owners) in order to calculate the self-employment deduction correctly. Note that the accountant for the partnership or corporation may not have this information as they may not prepare all partners' personal tax returns. This information may need to be provided by each partner. We will also need the ratio for allocating the pension expense among partners if different than their partnership ratio.

This is intended to give you some understanding of how year-end employer contributions will be calculated. You should provide a copy of this to your accountant and discuss any accounting issue with him or her. You should also discuss how you are expensing/reporting employer contributions made during the year for partners and staff to be sure this information can be properly identified. We are happy to talk with your accountant should there be any questions or concerns.

Some problems we have encountered:

- Partners pension contributions being deducted on the partnership return rather than the individual partner's return
- Incomplete information regarding the "off-sheet" adjustments or other W-2/self-employment income
- Tax return(s) filed before final contributions have been calculated for self employed individuals
- Employer contributions calculated on partner's draw or guaranteed payments rather than self-employed income
- Changes to the Schedule C or K-1 income not being provided to our office so that calculations can be revised

OWNERSHIP for COMPLETING Employer Questionnaire

For a partnership, ownership is a percentage of capital interests or profits interests, whichever is greater (i.e., an individual meets the 5% owner test if he or she owns more than 5% of the capital interests or more than 5% of the profit interests in the partnership). Since an individual's capital interest percentage might be different than the individual's profits interest percentage, it is necessary to examine both percentages to see if either is more than 5%, in order to determine if he or she falls into the 5% owner category. For a limited liability company or limited liability partnership, ownership is generally referred to as a membership interest. A sole proprietor is the 100% owner of the sole proprietorship.

This is not intended to be legal or tax advice. You should contact your counsel or tax professional for such advice.