



LETTER

Version 7.14

OUT OF NECESSITY

The Pension Protection Act has mandated some program changes other than the regular limit increases announced by the IRS. As a result, the newsletter has been taken out of mothballs to highlight some of those relevant changes.

But for starters, the new limits for 2007 are as follows:

401(k) Deferrals	\$15,500
Annual DC Limit	\$45,000
Annual Compensation Limit	\$225,000
Catch-up Contribution Limit	\$5,000
HCE Threshold	\$100,000
Social Security Wage Base	\$97,500

OTHERWISE EXCLUDIBLES

After years of operating under what was interpreted to be the criteria for excluding participants from the ADP/ACP tests - not attaining age 21 and having one year of service by either the first day of the plan year or the first day of the seventh month of the plan year - the IRS people at the annual ASPCA conference said that was not the intention. It was their contention that the Entry Dates specified in the plan document should be used along with age 21 and one year of service to determine who was excludible.

HOWEVER, if the plan document specified that the first day of the plan year and the first day of the seventh month should be used for determining the otherwise excludible, instead of the plan's entry dates, that would be acceptable.

System Enhancement: On the DC Run Controls screen, the User will be given the option to choose which entry dates to use for the determination of who qualifies as an otherwise excludible participant by pressing the F2

function key at the "Exclude Certain New Part. ADP/ACP" question in the Run Controls.

** TO ROTH OR NOT TO ROTH **

The introduction of Roth contributions to qualified plans presents challenges as well as problems. A Roth deferral capability added to a 401(k) plan opens the door for Roth catch-ups as well as a Roth match. Any Roth match must be added to any 401(k) match and be tested even though the Roth deferral itself is exempt from testing. Roth distributions are also subject to a five year clock to be "qualified". This could present a major problem since distributions must be prorated between regular 401(k) deferrals and Roth deferrals. The annual deferral limit applies to both types of deferrals, not to each one separately.

Incompass is putting together a separate corporation that can deal with the Roth additions. We hope to have it out before the end of the year.

***** FYI TIDBITS *****

The IRS stands firm on calculating GAP earnings on refunds for 2006 & 2007 - even though the Pension Protection Act has repealed them for 2008.

A Safe Harbor plan that only has Safe Harbor contributions and meets the top heavy exemption can use entry date only compensation.

HAPPY SILVER ANNIVERSARY!

Next month marks Incompass's 25th year in business. Thank-you for helping to make it possible!