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# A Quick Guide to Retirement Plan Limits in 2013

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By:

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# Financial, Legal & Tax Advisory

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## A Quick Guide to Retirement Plan Limits in 2013

### Introduction

How much do you want to put into your retirement account this year? With the arrival of the new year, retirement account contribution limits change. Depending on your retirement account, you may be able to contribute \$5500, or you may be able to contribute \$51,000. Listed below is a description and general guide to each type of account for 2013.

### Traditional 401(K)

The 401(K) is a retirement plan which arises from Section 401(K) of the Internal Revenue Code. 401(K)s are generally retirement plans sponsored by employers for their employees. However, specific sections of the code also make it advantageous for self-employed people to use 401(K)s. These self employed 401(K)s are typically referred to as Solo(K)s, the Self Employed(K), or even the Baby(K). 401(K) contributions are excludible from income in the year made. The annual deductible contribution limit to a 401(K) is now \$17,500. For those turning 50 and older this year, "a catch-up" or additional contribution of \$5,500 is allowed annually. When distributed, the distribution is taxable as ordinary income.

### Roth 401(K)

The Roth 401(K) is similar in all respects to the traditional 401(K). However, instead of contributions being deductible, contributions are taxed at the current tax rate of the employee, but are not taxed upon distribution in the future. Roth 401(K) contribution limits are the same as traditional 401(K) limits as stated above.

### Traditional 403(B)

This is generally a government employee retirement plan which is equivalent to the private sector 401(K) plans. The annual contribution limit is now \$17,500, while allowing a \$5,500 annual "catch-up" contribution for those 50 and older.

### Roth 403(B)

This retirement plan is the same as the traditional 403(B). However, it allows for no tax deduction for contributions made. Roth plan distributions, when made are not taxed, the same as the Roth 401(K).

### Traditional IRA

The traditional IRA is an individual retirement account. These can be set up by an individual at a bank or other financial organization. The annual contribution limit for 2013 is \$5,500 and the law allows \$1,000 annual "catch-up" contribution limits for those turning 50 years of age and older this year. Under the traditional IRA, contributions are deductible, but distributions are taxed when made in the future.

### Roth IRA

This is also an individual retirement account. The contribution limits are the same as the traditional IRA; however

they are not deductible in the year made. Staying true to the "Roth" form, the contributions are not deductible, but the distributions do not get taxed when made in the future.

### Simplified Employee Plan (SEP)

An SEP is a retirement plan where the employer contributes directly to an IRA of an employee. The employer contributions are excluded from the employee's gross income up to a maximum of 25% of compensation or \$51,000, whichever is less. The employee is also allowed to contribute to the plan. SEPs are set up by completing IRS form 5305-SEP and retaining the form as evidence of the plan. The form 5305-SEP is not submitted to the IRS but kept for reference and in the event of an audit of the plan. Proceeds are taxed as ordinary income when distributed.

### SIMPLE IRA

This plan is established by an employer by completing forms 5304-SIMPLE, when the employee can choose the financial institution, or 5305-SIMPLE, when the employer chooses the financial institution, which will receive the contributions. The annual limit of contributions is now \$12,000 annually, while allowing \$2,500 in annual catch-up contributions. The contributions are not taxed when made, but are taxed as ordinary income when received.

### Conclusion

It is best to maximize your income by investing in your future and your retirement. Contributing money to a retirement plan not only invests in your retirement, but also puts the money in a place where creditors are usually unable to garner the money. There is still time to contribute to your retirement plan in order to reduce your taxes payable or increase your return amount, even for 2012. While the above amounts are for 2013, it is advisable to check and see if you contributed the maximum for 2012. Knowing the basics and amounts that can be contributed to the respective plan is always valuable knowledge to have when you are planning for your retirement. If you have further questions about retirement plans, feel free to call The Center for further details.

**LEGISLATIVE UPDATE:** Even though Congress, at the time of printing has not extended or enacted new legislation for 2013, the above amounts are effective. **12-12**

### Dr. Basi's Travel Schedule:

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It doesn't matter whether your group or association is small, medium or large, Dr. Basi has addressed groups of all sizes in venues throughout the United States, Mexico and Canada. Formats for the meetings can vary from workshop, to seminar, to formal presentation. Dr. Basi will bring enlightenment on many topics to the members of your group or association.

Dr. Basi's credentials underscore his performance whenever he addresses an audience. Educated at some of the best schools in the country (Syracuse University, University of Louisville, Indiana University, and Stanford University), he holds degrees in Accounting, Finance, Economics and Law. Besides being a retired university professor, he is a CPA and a lawyer specializing in business transactions. He lectures, writes, researches and advises throughout the United States. He is the author of several books and has published hundreds of articles on business topics.

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