

Actuarial Consultants, Inc.

Legislative Update

California Conforms to EGTRRA

In Brief...

- ❑ The State of California has conformed its tax law to reflect changes created by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).
- ❑ Sponsors can now amend plans to incorporate EGTRRA provisions, including “Catch-up Contributions,” increased qualified retirement plan limits, and more liberal rollover opportunities.

Plan sponsors who have been waiting for the State of California to conform to EGTRRA can now breathe a sigh of relief—at last, the State has conformed to the Federal law.

What does this mean for sponsors of qualified plans? As noted in several recent articles in *Action Items*, EGTRRA created sweeping changes in pension law. And unlike most other recent legislation, EGTRRA’s impact is largely *positive*. However, the State of California is unique in that it does not automatically recognize Federal tax law for State taxation purposes. As a practical matter, this meant that the increased deductions available under EGTRRA on a Federal level would not apply on a State level. So plan sponsors whose contributions were based upon EGTRRA limits might find themselves taking different deductions for State and Federal tax purposes, and having to track retirement plan account balances with different tax bases—not a pleasant possibility! To further complicate matters, a strict interpretation of California law would indicate that a sponsor who did permit contributions in excess of State-mandated levels would actually *disqualify* their qualified plan on a State level—another frightening possibility. As a result of this incongruence, most sponsors took a “wait and see” approach to implementing EGTRRA.

With California now conforming, sponsors can begin implementing the myriad provisions included in EGTRRA, including:

- ❑ 401(k) catch-up contributions for employees age 50 or older;
- ❑ Increased defined benefit plan limits;
- ❑ Increased defined contribution plan limits;
- ❑ Loans for sole proprietors, partners and S-corporation shareholders;
- ❑ Expanded rollovers;
- ❑ Tax credits for lower income savers;

During the next several weeks, our staff will be contacting clients to discuss adding EGTRRA provisions to retirement plans. As always, feel free to contact an ACI consultant or administrator with any questions.



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