



SIMPLE IRA APPLICATION (Make extra copies for additional Employees)

Use this form to establish a new SIMPLE IRA. For assistance completing this form, please call us at 1-703-207-7005. **This application must be accompanied with a copy of your driver's license or a similar picture identification card.** Pursuant to the USA Patriot Act Section 326, all financial institutions must obtain, verify and record information that identifies each person who opens an account. All personal information requested below must be provided or we will not be able to open your account.

1. Employer & Plan Information

Employer (Business) Name _____ Contact Person Name _____ EIN Number _____

Street Address _____ Apt, Floor, Room No. _____

City _____ State _____ Zip _____

Daytime Phone _____ Form of business: Sole Proprietor Corporation Partnership S corporation Other _____

Please check one:

New plan (Must be accompanied by a copy of the employer's completed and signed IRS Form 5305-SIMPLE)

Existing plan

2. Employee Information (Your information)

Name (First, Middle, Last) _____ Email Address _____

Home Street Address _____ Apt, Floor, Room No. _____

City _____ State _____ Zip _____

Daytime Phone Number _____ Social Security Number _____ Date of Birth _____ US Citizen? Yes NO

3. Beneficiary Designation

I hereby designate the following primary beneficiary(ies) to receive payment of the value of my IRA upon my death. In the event that my primary beneficiary(ies) do not survive me, the funds are to be designated to my contingent beneficiary(ies). Note: If you do not indicate a percentage and more than one person is designated, the funds will be equally distributed among the beneficiary(ies). You may change your beneficiary(ies) at any time by giving written notice to the custodian.

A. Primary Beneficiary(ies):

Percentage Share %	Name	Social Security Number	Relationship	Birth Date

B. Contingent Beneficiary(ies):

Percentage Share %	Name	Social Security Number	Relationship	Birth Date

Spousal Consent (If you live in a marital or community property state and your spouse is not the sole primary beneficiary, your spouse must sign below.)

Name (First, Middle, Last)

Signature

4. Investment Instructions

Please invest the contributions made to my account as follows:

Azzad Ethical Mid Cap Fund for the amount of \$ _____ or _____ %

Wise Capital Fund for the amount of \$ _____ or _____ %

Minimum investment to open a new IRA is \$500. Note: Accounts with less than the minimum balance will be subject to balance fees and may be closed. Please consult the applicable prospectus for detailed information.

This is a Direct Transfer from a SIMPLE IRA (Funds will be transferred directly from another SIMPLE account. Please complete and attach the SIMPLE Transfer Request Form.)

To be applied to Tax Year: _____

5. Signatures (Required)

By signing below, I hereby certify and affirm under penalties of perjury that I have the authority and legal capacity to establish this SIMPLE IRA and to purchase shares of the Azzad Funds as indicated in this application. I have received and read the current applicable Azzad Funds prospectus, Custodial Agreement and Disclosure Statement. I certify and affirm under penalties of perjury that the social security on this form is true and correct and I have not been notified by the IRS that I am subject to back-up withholding. All dividends and distributions will be reinvested in shares of the fund from which received. I understand, agree, and will abide to the fees, risks, and charges involved in setting up this account. I have not received any tax or legal advice from the custodian or its agent, and I will seek the advice of my own tax or legal professional to ensure my compliance with related laws.

Your Signature

Date

Spousal consent is required in certain States if you are married and designate a beneficiary other than, or in addition to, the spouse. I hereby consent to and join in the designation of beneficiary (ies) above.

Signature of Spouse

Date

Accepted by Mutual Shareholder Services:

X

Signature of Custodian, Mutual Shareholder Services

Date

For Dealer Use Only. Please do not write below this line.

Broker/Dealer Name

Dealer Number

Registered Representative's Name

Representative's Number

Street Address

City,

State

Zip

Representative's Telephone Number

Simple Plans

The SIMPLE IRA is easy to establish and must be set up by October 1. Mail Simple IRA employee and Form 5305-SIMPLE to: **Azzad Asset Management, Inc. Attn: Operations 3141 Fairview Park Dr. Suite 460 Falls Church, VA 22042.**

How to Send Contributions

The best way to send your employer & salary reduction contributions is by mailing a check payable to: **Azzad Funds**. You must include a **spreadsheet** with all employee names, social security numbers and amount of contributions. The Custodian will then divide the check received according to the spreadsheet information.

Please mail your first contribution directly to **Azzad Asset Management, Inc. Attn: Operations 3141 Fairview Park Dr. Suite 460 Falls Church, VA 22042**. We will call you to confirm that the check and spreadsheet have been done correctly. Thereafter, please send check/spreadsheet to: **Azzad Funds C/O Mutual Shareholder Services 8000 Town Centre Dr. Ste 400 Broadview Heights, OH 44147.**



SIMPLE IRA Transfer Request Form

Use this form to transfer assets from an existing SIMPLE IRA to a SIMPLE IRA with Azzad. For assistance completing this form, please call us at 1-703-207-7005. Make additional copies for each employee; if needed.

1. Account Information

Full Name (First, middle, last)		Social Security Number
Street Address		Apt, Floor, Room No.
City	State	Zip
Daytime Phone	Date of Birth	

2. Present Trustee or Custodian Information

Attach a copy of a recent account statement.

Trustee, custodian or Insurance Company	Contact Person	Account Number
Street Address		Apt, Floor, Room No.
City	State	Zip
Business Phone		

3. Transfer Instructions & Authorization

To Resigning Trustee/Custodian: Please transfer my account in accordance with the instructions below.

Note: This SIMPLE IRA can only accept a transfer form from another SIMPLE IRA. If applicable, the required minimum distribution has or has not been satisfied for this distribution year prior to this transfer. If not, the transferee/custodian may require additional documentation.

From type of investment:

Mutual Fund Annuity CD (maturity date): _____ Other _____

Please check one:

I wish to liquidate/surrender my entire balance in the account indicated in Section 2. **OR**

I wish to liquidate/surrender a portion of my IRA balance. \$ _____ in the account indicated in Section 2.

And transfer the proceeds, by check to Mutual Shareholder Services c/o Azzad Funds 8869 Brecksville Rd, Suite C Brecksville, OH 44141.

Do so (check one below)

Immediately **OR**

At maturity date (specify date if applicable _____). *Note: A penalty may apply for early withdrawals from certain investments, such as Cds and annuities.*

4. Investment Instructions

I am opening a new account and have attached a SIMPLE IRA application.

Deposit Proceeds in my existing Azzad Funds SIMPLE IRA, account number _____.

Total Transfer Amount\$ _____

5. Required Signatures

I certify that I have established a traditional SIMPLE IRA with the Azzad Funds, of which Huntington National Bank is the transferee custodian/trustee. I certify that the information contained on this form is true and correct. I direct the transferor custodian/trustee to transfer my IRA assets as set forth in this form. I understand that I should seek the guidance of a tax or legal professional with regard to this decision. I understand that if I establish a separate conduit account, it is my responsibility to keep my conduit account separate from my other accounts. I understand that my custodian/trustee cannot provide legal advice. I indemnify and agree to hold the Azzad Funds and its agents harmless against any liabilities. I assume full responsibility for the consequences of this transfer decision. The custodian/trustee agrees to accept these funds as a transfer. I certify that I have received and read the custodial and disclosure agreements for SIMPLE IRAs, which are incorporate herein by reference. I understand that SIMPLE IRA funds cannot be transferred to a traditional IRA within a 2 year period that begins on the date of the initial contribution to my SIMPLE IRA. SIMPLE IRA funds transferred or rolled over during the two-year period are subject to an additional 25% excise tax (however, you may roll over or transfer a SIMPLE IRA to a SIMPLE IRA within the 2 year period.)

Signature of IRA Owner _____ Date _____

X _____

Accepted by Mutual Shareholder Services, Signature and Date

**Savings Incentive Match Plan for
Employees of Small Employers (SIMPLE)—
for Use With a Designated Financial Institution****Do not file
with the Internal
Revenue Service**

Name of Employer _____

establishes the following SIMPLE

IRA plan under section 408(p) of the Internal Revenue Code and pursuant to the instructions contained in this form.

Article I—Employee Eligibility Requirements *(complete applicable box(es) and blanks—see instructions)*

- 1 General Eligibility Requirements.** The Employer agrees to permit salary reduction contributions to be made to each calendar year to the SIMPLE individual retirement account of annuity established at the designated financial institution (SIMPLE IRA) for each employee who meets the following requirements (select either 1a or 1b):
- a** **Full Eligibility.** All employees are eligible.
- b** **Limited Eligibility.** Eligibility is limited to employees who are described in both (i) and (ii) below:
- (i) Current compensation.** Employees who are reasonably expected to receive at least \$ _____ in compensation (not to exceed \$5,000) for calendar year.
- (ii) Prior compensation.** Employees who have received at least \$ _____ in compensation (not to exceed \$5,000) during any _____ calendar year(s) (insert 0, 1, or 2) preceding the calendar year.
- 2 Excludable Employees**
- The Employer elects to exclude employees covered under a collective bargaining agreement for which retirement benefits were the subject of good faith bargaining. **Note:** *This box is deemed checked if the Employer maintains a qualified plan covering only such employees.*

Article II—Salary Reduction Agreements *(complete the box and blank, if applicable—see instructions)*

- 1 Salary Reduction Election.** An eligible employee may make an election to have his or her compensation for each pay period reduced. The total amount of the reduction in the employee's compensation for a calendar year cannot exceed the applicable amount for that year. See instructions.
- 2 Timing of Salary Reduction Elections**
- a** For a calendar year, an eligible employee may make or modify a salary reduction election during the 60-day period immediately preceding January 1 of that year. However, for the year in which the employee becomes eligible to make salary reduction contributions, the period during which the employee may make or modify the election is a 60-day period that includes either the date the employee becomes eligible or the day before.
- b** In addition to the election periods in 2a, eligible employees may make salary reduction elections or modify prior elections _____. If the Employer chooses this option, insert a period or periods (e.g., semi-annually, quarterly, monthly, or daily) that will apply uniformly to all eligible employees.
- c** No salary reduction election may apply to compensation that an employee received, or had a right to immediately receive, before execution of the salary reduction election.
- d** An employee may terminate a salary reduction election at any time during the calendar year. If this box is checked, an employee who terminates a salary reduction election not in accordance with 2b may not resume salary reduction contributions during the calendar year.

Article III—Contributions *(complete the blank, if applicable—see instructions)*

- 1 Salary Reduction Contributions.** The amount by which the employee agrees to reduce his or her compensation will be contributed by the Employer to the employee's SIMPLE IRA.
- 2a Matching Contributions**
- (i)** For each calendar year, the Employer will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year.
- (ii)** The Employer may reduce the 3% limit for the calendar year in (i) only if:
- (1)** The limit is not reduced below 1%; **(2)** The limit is not reduced for more than 2 calendar years during the 5-year period ending with the calendar year the reduction is effective; and **(3)** Each employee is notified of the reduced limit within a reasonable period of time before the employees' 60-day election period for the calendar year (described in Article II, item 2a).
- b Nonelective Contributions**
- (i)** For any calendar year, instead of making matching contributions, the Employer may make nonelective contributions equal to 2% of compensation for the calendar year to the SIMPLE IRA of each eligible employee who has at least \$ _____ (not more than \$5,000) in compensation for the calendar year. No more than \$230,000* in compensation can be taken into account in determining the nonelective contribution for each eligible employee.
- (ii)** For any calendar year, the Employer may make 2% nonelective contributions instead of matching contributions only if:
- (1)** Each eligible employee is notified that a 2% nonelective contribution will be made instead of a matching contribution; and
- (2)** This notification is provided within a reasonable period of time before the employees' 60-day election period for the calendar year (described in Article II, item 2a).
- 3 Time and Manner of Contributions**
- a** The Employer will make the salary reduction contributions (described in 1 above) to the designated financial institution for the IRAs established under this SIMPLE IRA plan no later than 30 days after the end of the month in which the money is withheld from the employee's pay. See instructions.
- b** The Employer will make the matching or nonelective contributions (described in 2a and 2b above) to the designated financial institution for the IRAs established under this SIMPLE IRA plan no later than the due date for filing the Employer's tax return, including extensions, for the taxable year that includes the last day of the calendar year for which the contributions are made.

* This is the amount for 2008. For later years, the limit may be increased for cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's internet website at www.irs.gov.

Article IV—Other Requirements and Provisions

- 1 **Contributions in General.** The Employer will make no contributions to the SIMPLE IRAs other than salary reduction contributions (described in Article III, item 1) and matching or nonelective contributions (described in Article III, items 2a and 2b).
- 2 **Vesting Requirements.** All contributions made under this SIMPLE IRA plan are fully vested and nonforfeitable.
- 3 **No Withdrawal Restrictions.** The Employer may not require the employee to retain any portion of the contributions in his or her SIMPLE IRA or otherwise impose any withdrawal restrictions.
- 4 **No Cost Or Penalty For Transfers.** The Employer will not impose any cost or penalty on a participant for the transfer of the participant's SIMPLE IRA balance to another IRA.
- 5 **Amendments To This SIMPLE IRA Plan.** This SIMPLE IRA plan may not be amended except to modify the entries inserted in the blanks or boxes provided in Articles I, II, III, VI, and VII.
- 6 **Effects Of Withdrawals and Rollovers**
 - a An amount withdrawn from the SIMPLE IRA is generally includible in gross income. However, a SIMPLE IRA balance may be rolled over or transferred on a tax-free basis to another IRA designed solely to hold funds under a SIMPLE IRA plan. In addition, an individual may roll over or transfer his or her SIMPLE IRA balance to any IRA or eligible retirement plan after a 2-year period has expired since the individual first participated in any SIMPLE IRA plan of the Employer. Any rollover or transfer must comply with the requirements of section 408.
 - b If an individual withdraws an amount from a SIMPLE IRA during the 2-year period beginning when the individual first participated in any SIMPLE IRA plan of the Employer and the amount is subject to the additional tax on early distributions under section 72(t), this additional tax is increased from 10% to 25%.

Article V—Definitions

- 1 **Compensation**
 - a **General Definition of Compensation.** Compensation means the sum of wages, tips, and other compensation from the Employer subject to federal income tax withholding (as described in section 6051(a)(3)), the amounts paid for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority, and the employee's salary reduction contributions made under this plan, and, if applicable, elective deferrals under a section 401(k) plan, a SARSEP, or a section 403(b) annuity contract and compensation deferred under a section 457 plan required to be reported by the Employer on Form W-2 (as described in section 6051(a)(8)).
 - b **Compensation for Self-Employed Individuals.** For self-employed individuals, compensation means the net earnings from self-employment determined under section 1402(a), without regard to section 1402(c)(6), prior to subtracting any contributions made pursuant to this plan on behalf of the individual.
- 2 **Employee.** Employee means a common-law employee of the Employer. The term employee also includes a self-employed individual and a leased employee described in section 414(n) but does not include a nonresident alien who received no earned income from the Employer that constitutes income from sources within the United States.
- 3 **Eligible Employee.** An eligible employee means an employee who satisfies the conditions in Article I, item 1 and is not excluded under Article I, item 2.
- 4 **Designated Financial Institution.** A designated financial institution is a trustee, custodian, or insurance company (that issues annuity contracts) for the SIMPLE IRA plan that receives all contributions made pursuant to the SIMPLE IRA plan and deposits those contributions to the SIMPLE IRA of each eligible employee.

Article VI—Procedures for Withdrawal *(The designated financial institution will provide the instructions (to be attached or inserted in the space below) on the procedures for withdrawals of contributions by employees.)*

Article VII—Effective Date

This SIMPLE IRA plan is effective _____ . See instructions.

* * * * *

Name of Employer

By: Signature Date

Address of Employer

Name and title

The undersigned agrees to serve as designated financial institution, receiving all contributions made pursuant to this SIMPLE IRA plan and depositing those contributions to the SIMPLE IRA of each eligible employee as soon as practicable. Upon the request of any participant, the undersigned also agrees to transfer the participant's balance in a SIMPLE IRA established under this SIMPLE IRA plan to another IRA without cost or penalty to the participant.

Name of designated financial institution

By: Signature Date

Address

Name and title

Model Notification to Eligible Employees

I. Opportunity to Participate in the SIMPLE IRA Plan

You are eligible to make salary reduction contributions to the _____ SIMPLE IRA plan. This notice and the attached summary description provide you with information that you should consider before you decide whether to start, continue, or change your salary reduction agreement.

II. Employer Contribution Election

For the _____ calendar year, the Employer elects to contribute to your SIMPLE IRA (*employer must select either (1), (2), or (3)*):

- (1) A matching contribution equal to your salary reduction contributions up to a limit of 3% of your compensation for the year;
- (2) A matching contribution equal to your salary reduction contributions up to a limit of _____ % (*employer must insert a number from 1 to 3 and is subject to certain restrictions*) of your compensation for the year; or
- (3) A nonelective contribution equal to 2% of your compensation for the year (limited to \$230,000*) if you are an employee who makes at least \$ _____ (*employer must insert an amount that is \$5,000 or less*) in compensation for the year.

III. Administrative Procedures

To start or change your salary reduction contributions, you must complete the salary reduction agreement and return it to _____ (*employer should designate a place or individual*) by _____ (*employer should insert a date that is not less than 60 days after notice is given*).

Model Salary Reduction Agreement

I. Salary Reduction Election

Subject to the requirements of the SIMPLE IRA plan of _____ (*name of employer*) I authorize _____ % or \$ _____ (which equals _____ % of my current rate of pay) to be withheld from my pay for each pay period and contributed to my SIMPLE IRA as a salary reduction contribution.

II. Maximum Salary Reduction

I understand that the total amount of my salary reduction contributions in any calendar year cannot exceed the applicable amount for that year. See instructions.

III. Date Salary Reduction Begins

I understand that my salary reduction contributions will start as soon as permitted under the SIMPLE IRA plan and as soon as administratively feasible or, if later, _____. (*Fill in the date you want the salary reduction contributions to begin. The date must be after you sign this agreement.*)

IV. Duration of Election

This salary reduction agreement replaces any earlier agreement and will remain in effect as long as I remain an eligible employee under the SIMPLE IRA plan or until I provide my Employer with a request to end my salary reduction contributions or provide a new salary reduction agreement as permitted under this SIMPLE IRA plan.

Signature of employee _____ Date _____

* This is the amount for 2008. For later years, the limit may be increased for cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS website at www.irs.gov.

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Form 5305-SIMPLE is a model Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan document that an employer may use in combination with SIMPLE IRAs to establish a SIMPLE IRA plan described in section 408(p).

These instructions are designed to assist in the establishment and administration of the SIMPLE IRA plan. They are not intended to supersede any provision in the SIMPLE IRA plan.

Do not file Form 5305-SIMPLE with the IRS. Instead, keep it with your records.

For more information, see Pub. 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans), and Pub. 590, Individual Retirement Arrangements (IRAs).

Note. If you used the March 2002 or August 2005 version of Form 5305-SIMPLE to establish a model Savings Incentive Match Plan, you are not required to use this version of the form.

Instructions for the Employer

Which Employers May Establish and Maintain a SIMPLE IRA Plan?

To establish and maintain a SIMPLE IRA plan, you must meet both of the following requirements:

1. Last calendar year, you had no more than 100 employees (including self-employed individuals) who earned \$5,000 or more in compensation from you during the year. If you have a SIMPLE IRA plan but later exceed this 100-employee limit, you will be treated as meeting the limit for the 2 years following the calendar year in which you last satisfied the limit.
2. You do not maintain during any part of the calendar year another qualified plan with respect to which contributions are made, or benefits are accrued, for service in the calendar year. For this purpose, a qualified plan (defined in section 219(g)(5)) includes a qualified pension plan, a profit-sharing plan, a stock bonus plan, a qualified annuity plan, a tax-sheltered annuity plan, and a simplified employee pension (SEP) plan. A qualified plan that only covers employees covered under a collective bargaining agreement for which retirement benefits were the subject of good faith bargaining is disregarded if

these employees are excluded from participating in the SIMPLE IRA plan.

If the failure to continue to satisfy the 100-employee limit or the one-plan rule described in 1 or 2 above is due to an acquisition or similar transaction involving your business, special rules apply. Consult your tax advisor to find out if you can still maintain the plan after the transaction.

Certain related employers (trades or businesses under common control) must be treated as a single employer for purposes of the SIMPLE requirements. These are:

- (1) a controlled group of corporations under section 414(b);
- (2) a partnership or sole proprietorship under common control under section 414(c); or
- (3) an affiliated service group under section 414(m). In addition, if you have leased employees required to be treated as your own employees under the rules of section 414(n), then you must count all such leased employees for the requirements listed above.

What Is a SIMPLE IRA Plan?

A SIMPLE IRA plan is a written arrangement that provides you and your employees with an easy way to make contributions to provide retirement income for your employees. Under a SIMPLE IRA plan, employees may choose whether to make salary reduction contributions to the SIMPLE IRA plan rather than receiving these amounts as part of their regular compensation. In addition, you will contribute matching or nonelective contributions on behalf of eligible employees (see *Employee Eligibility Requirements* below and *Contributions* on page 5). All contributions under this plan will be deposited into a SIMPLE individual retirement account or annuity established for each eligible employee with the designated financial institution named in Article VII.

When To Use Form 5305-SIMPLE

A SIMPLE IRA plan may be established by using this Model Form or any other document that satisfies the statutory requirements.

Do not use Form 5305-SIMPLE if:

1. You want to permit each of your eligible employees to choose a financial institution that will initially receive contributions. Instead, use Form 5304-SIMPLE, Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)—Not for Use With a Designated Financial Institution;
2. You want employees who are nonresident aliens receiving no earned

income from you that constitutes income from sources within the United States to be eligible under this plan; or

3. You want to establish a SIMPLE 401(k) plan.

Completing Form 5305-SIMPLE

Pages 1 and 2 of Form 5305-SIMPLE contain the operative provisions of your SIMPLE IRA plan. This SIMPLE IRA plan is considered adopted when you have completed all appropriate boxes and blanks and it has been executed by you and the designated financial institution.

The SIMPLE IRA plan is a legal document with important tax consequences for you and your employees. You may want to consult with your attorney or tax advisor before adopting this plan.

Employee Eligibility Requirements (Article I)

Each year for which this SIMPLE IRA plan is effective, you must permit salary reduction contributions to be made by all of your employees who are reasonably expected to receive at least \$5,000 in compensation from you during the year, and who received at least \$5,000 in compensation from you in any 2 preceding years. However, you can expand the group of employees who are eligible to participate in the SIMPLE IRA plan by completing the options provided in Article I, items 1a and 1b. To choose full eligibility, check the box in Article I, item 1a. Alternatively, to choose limited eligibility, check the box in Article I, item 1b, and then insert "\$5,000" or a lower compensation amount (including zero) and "2" or a lower number of years of service in the blanks in (i) and (ii) of Article I, item 1b.

In addition, you can exclude from participation those employees covered under a collective bargaining agreement for which retirement benefits were the subject of good faith bargaining. You may do this by checking the box in Article I, item 2. Under certain circumstances, these employees must be excluded. See *Which Employers May Establish and Maintain a SIMPLE IRA Plan?* earlier.

Salary Reduction Agreements (Article II)

As indicated in Article II, item 1, a salary reduction agreement permits an eligible employee to make an election to have his or her compensation for each pay period reduced by a percentage (expressed as a percentage or dollar amount). The total amount of the reduction in the employee's compensation cannot exceed the

applicable amount for any calendar year. The applicable amount is \$10,500 for 2008. After 2008, the \$10,500 amount may be increased for cost-of-living adjustments. In the case of an eligible employee who is 50 or older by the end of the calendar year, the above limitation is increased by \$2,500 for 2008. After 2008, the \$2,500 amount may be increased for cost-of-living adjustments.

Timing of Salary Reduction Elections

For a calendar year, an eligible employee may make or modify a salary reduction election during the 60-day period immediately preceding January 1 of that year. However, for the year in which the employee becomes eligible to make salary reduction contributions, the period during which the employee may make or modify the election is a 60-day period that includes either the date the employee becomes eligible or the day before.

You can extend the 60-day election periods to provide additional opportunities for eligible employees to make or modify salary reduction elections using the blank in Article II, item 2b. For example, you can provide that eligible employees may make new salary reduction elections or modify prior elections for any calendar quarter during the 30 days before that quarter.

You may use the *Model Salary Reduction Agreement* on page 3 to enable eligible employees to make or modify salary reduction elections.

Employees must be permitted to terminate their salary reduction elections at any time. They may resume salary reduction contributions for the year if permitted under Article II, item 2b. However, by checking the box in Article II, item 2d, you may prohibit an employee who terminates a salary reduction election outside the normal election cycle from resuming salary reduction contributions during the remainder of the calendar year.

Contributions (Article III)

Only contributions described below may be made to this SIMPLE IRA plan. No additional contributions may be made.

Salary Reduction Contributions

As indicated in Article III, item 1, salary reduction contributions consist of the amount by which the employee agrees to reduce his or her compensation. You must contribute the salary reduction contributions to the designated financial institution for the employee's SIMPLE IRA.

Matching Contributions

In general, you must contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions. This matching contribution cannot exceed 3% of the employee's compensation. See *Definition of Compensation* below.

You may reduce this 3% limit to a lower percentage, but not lower than 1%. You cannot lower the 3% limit for more than 2 calendar years out of the 5-year period ending with the calendar year the reduction is effective.

Note. If any year in the 5-year period described above is a year before you first established any SIMPLE IRA plan, you will be treated as making a 3% matching contribution for that year for purposes of determining when you may reduce the employer matching contribution.

To elect this option, you must notify the employees of the reduced limit within a reasonable period of time before the applicable 60-day election periods for the year. See *Timing of Salary Reduction Elections* above.

Nonelective Contributions

Instead of making a matching contribution, you may, for any year, make a nonelective contribution equal to 2% of compensation for each eligible employee who has at least \$5,000 in compensation for the year. Nonelective contributions may not be based on more than \$230,000* of compensation.

To elect to make nonelective contributions, you must notify employees within a reasonable period of time before the applicable 60-day election periods for such year. See *Timing of Salary Reduction Elections* above.

Note. Insert "\$5,000" in Article III, item 2b(i) to impose the \$5,000 compensation requirement. You may expand the group of employees who are eligible for nonelective contributions by inserting a compensation amount lower than \$5,000.

Effective Date (Article VII)

Insert in Article VII the date you want the provisions of the SIMPLE IRA plan to become effective. You must insert January 1 of the applicable year unless this is the first year for which you are adopting any SIMPLE IRA plan. If this is the first year for which you are adopting a SIMPLE IRA plan, you may insert any date between January 1 and October 1, inclusive of the applicable year.

Additional Information

Timing of Salary Reduction Contributions

The employer must make the salary reduction contributions to the designated financial institution for the SIMPLE IRAs of all eligible employees no later than the 30th day of the month following the month in which the amounts would otherwise have been payable to the employee in cash.

The Department of Labor has indicated that most SIMPLE IRA plans are also subject to Title I of the Employee Retirement Income Security Act of 1974 (ERISA). Under Department of Labor regulations, at 29 CFR 2510.3-102, salary reduction contributions must be made to the SIMPLE IRA at the designated financial institution as of the earliest date on which those contributions can reasonably be segregated from the employer's general assets, but in no event later than the 30-day deadline described previously.

Definition of Compensation

"Compensation" means the amount described in section 6051(a)(3) (wages, tips, and other compensation from the employer subject to federal income tax withholding under section 3401(a)), and amounts paid for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority. Usually, this is the amount shown in box 1 of Form W-2, Wage and Tax Statement. For further information, see Pub. 15, Circular E, Employer's Tax Guide. Compensation also includes the salary reduction contributions made under this plan, and, if applicable, compensation deferred under a section 457 plan. In determining an employee's compensation for prior years, the employee's elective deferrals under a section 401(k) plan, a SARSEP, or a section 403(b) annuity contract are also included in the employee's compensation.

For self-employed individuals, compensation means the net earnings from self-employment determined under section 1402(a), without regard to section 1402(c)(6), prior to subtracting any contributions made pursuant to this SIMPLE IRA plan on behalf of the individual.

* This is the amount for 2008. For later years, the limit may be increased for cost-of-living adjustments. The IRS announces the increase, if any, in a news release, in the Internal Revenue Bulletin, and on the IRS's website at www.irs.gov.

Employee Notification

You must notify eligible employees prior to the employees' 60-day election period described above that they can make or change salary reduction elections. In this notification, you must indicate whether you will provide:

1. A matching contribution equal to your employees' salary reduction contributions up to a limit of 3% of their compensation;
2. A matching contribution equal to your employees' salary reduction contributions subject to a percentage limit that is between 1 and 3% of their compensation; or
3. A nonelective contribution equal to 2% of your employees' compensation.

You can use the *Model Notification to Eligible Employees* on page 3 to satisfy these employee notification requirements for this SIMPLE IRA plan. A Summary Description must also be provided to eligible employees at this time. This summary description requirement may be satisfied by providing a completed copy of pages 1 and 2 of Form 5305-SIMPLE (including the Article VI Procedures for Withdrawals and Transfers from the SIMPLE IRAs established under this SIMPLE IRA plan).

If you fail to provide the employee notification (including the summary description) described above, you will be liable for a penalty of \$50 per day until the notification is provided. If you can show that the failure was due to reasonable cause, the penalty will not be imposed.

Reporting Requirements

You are not required to file any annual information returns for your SIMPLE IRA plan, such as Form 5500, Annual Return/Report of Employee Benefit Plan or Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan. However, you must report to the IRS which eligible employees are active participants in the SIMPLE IRA plan and the amount of your employees' salary reduction contributions to the SIMPLE IRA plan on Form W-2. These contributions are subject to social security, Medicare, railroad retirement, and federal unemployment tax.

Deducting Contributions

Contributions to this SIMPLE IRA plan are deductible in your tax year containing the end of the calendar year for which the contributions are made.

Contributions will be treated as made for a particular tax year if they are made for that year and are made by the due date (including extensions) of your income tax return for that year.

Choosing the Designated Financial Institution

As indicated in Article V, item 4, a designated financial institution is a trustee, custodian, or insurance company (that issues annuity contracts) for the SIMPLE IRA plan that would receive all contributions made pursuant to the SIMPLE IRA plan and deposit the contributions to the SIMPLE IRA of each eligible employee.

Only certain financial institutions, such as banks, savings and loan associations, insured credit unions, insurance companies (that issue annuity contracts), or IRS-approved nonbank trustees may serve as a designated financial institution under a SIMPLE IRA plan.

You are not required to choose a designated financial institution for your SIMPLE IRA plan. However, if you do not want to choose a designated financial institution, you cannot use this form (see *When To Use Form 5305-SIMPLE* on page 4).

Instructions for the Designated Financial Institution

Completing Form 5305-SIMPLE

By completing Article VII, you have agreed to be the designated financial institution for this SIMPLE IRA plan. You agree to maintain IRAs on behalf of all individuals receiving contributions under the plan and to receive all contributions made pursuant to this plan and to deposit those contributions to the SIMPLE IRAs of each eligible employee as soon as practicable. You also agree that upon the request of a participant, you will transfer the participant's balance in a SIMPLE IRA to another IRA without cost or penalty to the participant.

Summary Description

Each year the SIMPLE IRA plan is in effect, you must provide the employer the information described in section 408(l)(2)(B). This requirement may be satisfied by providing the employer a current copy of Form 5305-SIMPLE (including instructions) together with your

procedures for withdrawals and transfers from the SIMPLE IRAs established under this SIMPLE IRA plan. The summary description must be received by the employer in sufficient time to comply with the *Employee Notification* requirements on this page.

If you fail to provide the summary description described above, you will be liable for a penalty of \$50 per day until the notification is provided. If you can show that the failure was due to reasonable cause, the penalty will not be imposed.

Paperwork Reduction Act Notice. You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	3 hr., 38 min.
Learning about the law or the form	2 hr., 26 min.
Preparing the form	47 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send this form to this address. Instead, keep it for your records.