Help prevent the year-end vacation-time scramble with a PTO contribution arrangement

Many businesses find themselves short-staffed from Thanksgiving through December 31 as employees take time off to spend with family and friends. But if you limit how many vacation days employees can roll over to the new year, you might find your workplace a ghost town as workers scramble to use, rather than lose, their time off. A paid time off (PTO) contribution arrangement may be the solution.

How it works

A PTO contribution program allows employees with unused vacation hours to elect to convert them to retirement plan contributions. If the plan has a 401(k) feature, it can treat these amounts as a pretax benefit, similar to normal employee deferrals. Alternatively, the plan can treat the amounts as employer profit sharing, converting excess PTO amounts to employer contributions.

A PTO contribution arrangement can be a better option than increasing the number of days employees can roll over. Why? Larger rollover limits can result in employees building up large balances that create a significant liability on your books.

Getting started

To offer a PTO contribution arrangement, simply amend your plan. However, you must still follow the plan document's eligibility, vesting, rollover, distribution and loan terms. Additional rules apply.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.