Retirement Plans

SEP IRA Plan

For Business Owners

An employer-funded retirement plan that is easy to establish and administer

A Simplified Employee Pension Individual Retirement Account (SEP-IRA) is perhaps the easiest and most convenient plan for business owners and self-employed individuals to establish and maintain. Based entirely on employer contributions, it offers high contribution limits and the flexibility to decide year-by-year whether and how much to contribute. Business owners can benefit from:

- Maximum flexibility for employer contributions
- Tax deductions for employer contributions to the plan
- A potential tax credit of up to $5000 per year for startup cost each of the first three years after establishing a plan
- Complete funding flexibility for changing business conditions
- The ability to integrate the plan with Social Security, allowing those earning above the Social Security taxable wage base to receive a higher percentage contribution than other employees

Consider a SEP IRA for your business if you want to:

– Fund retirement savings through employer contributions, while benefiting from business tax deductions
– Have maximum flexibility on how much to contribute based on cash flow each year
– Avoid more complex and costly administration associated with qualified plans like 401(k)s
– Take advantage of an optional contribution formula benefiting highly compensated employees

A SEP IRA may not be appropriate if:

– You want more flexibility and features for recruiting or retaining employees, such as vesting schedules, loans or a salary deferral option

Special Considerations:

– Must include all employees-including part-time, seasonal, terminated or deceased employees-age 21 or older, earning $750 or more in 2023 ($650 in 2022 and 2021) in any three of the last five years
– No loans permitted
– Can be funded once and does not require regular funding to maintain qualified status

Key Features

- Tax-deductible employer contributions up to $66,000 for 2023 ($61,000 for 2022), or 25% of eligible compensation (20% of modified net profit for unincorporated businesses), whichever is less
- Individual retirement accounts for each employee
- Employee-directed investments
- Immediate vesting of employer contributions
- No employee salary deferrals; employer contributions only
- Tax-deferred growth
- No special Internal Revenue Service (IRS) reporting or nondiscrimination testing
- Rolling over assets to and from other qualified employer-sponsored plans and traditional IRAs is generally permitted without penalty

Key Employer Responsibilities

1. Select the employer contribution funding allocation and sign IRS Form 5305-SEP, Simplified Employee Pension—Individual Retirement Accounts Contribution Agreement, or a prototype SEP-IRA plan adoption agreement no later than the tax filing deadline of the business (including extensions).
2. Inform employees about the plan and provide a copy of IRS Form 5305-SEP or the completed prototype plan document to employees.
3. Deposit employer contributions in employee accounts by the business' tax filing deadline, including extensions.

How an Investment Professional Can Help

- Provide documentation to set up the SEP plan and SEP-IRA accounts for employees
- Supply required documentation and notices for communicating the plan to employees
- Assist employees with investment choices

Key Definitions and Limits

Eligibility – Employees age 21 or older who have earned $750 for 2023 ($650 in 2022 and 2021) or more in any three of the last five years must be included in the plan. All employees who meet the minimum earnings are eligible for employer contributions, including those who are part-time, seasonal, terminated or deceased.

Eligible compensation – For the purposes of calculating non-elective contributions, the IRS caps compensation at $330,000 in 2023 ($305,000 for 2022), regardless of actual income/earnings for the year.

Maximum tax-deductible employer contribution – $66,000 or 25% of eligible compensation, or 20% of modified net profit for unincorporated businesses, whichever is less, for 2023 ($61,000 for 2022).

Withdrawals – Permitted without penalty at age 59½ or in the event of death or disability. Early withdrawals are generally subject to a 10% tax penalty. Minimum required distributions must begin by April 1 of the year following the year in which the account holder reaches age 70½, 72 or 73 (depending on date of birth).

Note: This summary is for informational purposes only and is not intended to provide complete information on any plan. Contact your investment professional for more information. Before establishing a plan, consult with your tax and legal advisors to fully understand your responsibilities and requirements for maintaining a plan. ■