



## SEP IRA

The SEP IRA is a type of Individual Retirement Account that allows self-employed businesses and their employees to utilize the account to receive tax deferred savings benefits. A business of any size, even self-employed, can establish a SEP.

[See Tax Code 26 U.S. Code § 1.408A-8 Definitions \(3\)](#)

### Key Advantages of a SEP IRA



#### Higher contribution Limits

For those eligible, SEP IRA contribution limits are much higher than traditional or Roth IRAs.



#### Simplicity

The SEP IRA is relatively simple to set up and administer, with new reporting requirements.



#### Tax Benefits

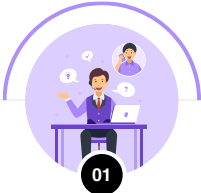
Contributions are tax-deductible for the employer and grow tax-deferred for the employee until withdrawal.



#### Flexibility

Employers are not required to contribute every year, so it can be more flexible than other types of retirement plans.

### How to Setup a SEP IRA

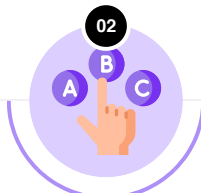


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#### Determine Eligibility

**Employer Eligibility:** Any business owner, including sole proprietors, partnerships, corporations, and even some non-profits, can set up a SEP IRA.

**Employee Eligibility:** Employees are eligible if they are 21 years old or older, have worked for the employer for at least 3 of the last 5 years.



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#### Choose a Financial Institution

You need to select a financial institution (bank, brokerage firm, or mutual fund company) to open the SEP IRA accounts.

Most large financial institutions, like Vanguard, Fidelity, Schwab, and others, offer SEP IRA plans.



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#### Create a SEP Plan

To set up the plan, you'll need to complete a SEP IRA plan adoption agreement. This document outlines the terms of the plan and how it will be administered.

Most financial institutions provide a simple pre-approved SEP IRA adoption agreement.



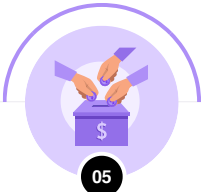
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#### Set Contribution Rules

Contributions to SEP IRAs are made by the employer only. For 2024, the contribution limit is:

The lesser of 25% of an employee's compensation or \$69,000

Self-employed individuals can contribute up to 20% of their net earnings (after deducting business expenses and the SEP IRA contribution).



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#### Make Contributions

As the employer, you decide how much to contribute each year, but contributions must be made in the same percentage for all employees.

**Self-employed contribution:** if you're self-employed, your contribution is based on your net earnings from the business, taking



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#### Inform Your Employees

If you have employees who are eligible, you must notify them that a SEP IRA plan is in place and provide the necessary paperwork to allow them to open their own SEP IRA accounts.

Employees are not required to contribute to their own SEP IRA; it is solely the



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#### Make Ongoing Contributions

Contributions are due by your business's tax filing deadline (including extensions). If you're a self-employed person, you can make contributions up until the due date of your tax return, including extensions.



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#### Maintain Records

Keep accurate records of contributions to the SEP IRA for both yourself and any employees. This will be important for tax purpose and in case of any IRS inquiries.



## Tax Year 2021

into account the deduction for the SEP contribution itself.

employer's responsibility to contribute.

### Example of a SEP IRA Contribution



Let's say you own a business and pay yourself a salary of \$60,000. If you're contributing 25% of your compensation (the maximum for SEP IRAs), your contribution for the year would be:

Contribution = 25% of \$60,000 = \$15,000 to your own SEP IRA.



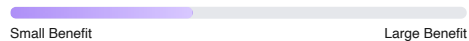
If you also have one employee earning \$50,000, you would contribute the same percentage (25%) to their SEP IRA as well:

Contribution for employee = 25% of \$50,000 = \$12,500 to the employee's SEP IRA.

In this case, you would deduct both the \$15,000 for yourself and the \$12,500 for your employee as business expenses, which reduces your taxable income for the year.

### Tax Planner Pro Rankings: 14 Days Home Rental

#### Strategy Overall Benefit



#### Difficulty Rating



#### Audit Risk



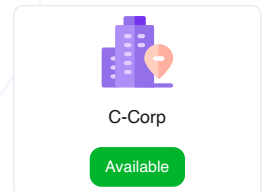
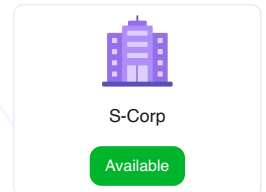
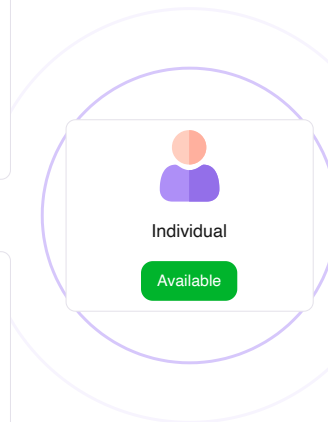
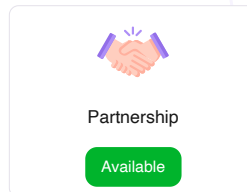
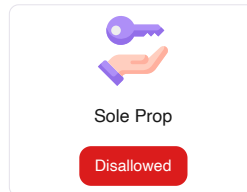
#### Aggressiveness Rating



#### Implementation Deadline

December 31st of the current tax year

### Entity Availability



### DISCLAIMER

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Additionally, at times we may discuss the law or new and pending legislation. Please know our understanding of it is constantly changing, and you cannot and should not rely upon us for legal, financial, or accounting advice.