

## IRAs and Simplified Employee Pension Plans (SEP-IRA)<sup>©</sup>

The SEP-IRA plan, or just SEP, is a provision under federal law which allows employers to put company money into its employees' IRAs as a special type of company retirement plan. SEPs are allowed for sole employee/owner businesses as well as larger businesses with up to 100 employees. The employer may contribute up to 25 percent of each employee's compensation or \$49,000, whichever amount is less, a huge advantage over regular IRAs, even if the company has only one employee – the owner.

**SEP-IRAs Work Great For:  
Sole employee/owners and the self-employed, especially when combined with a self directed IRA from IRACentral.com.**

☛ Contributions to a SEP-IRA are tax deductible to the company, and the company pays no taxes on the earnings inside those SEP-IRAs. No IRS filings are required from the company.

☛ SEP plans allow company contributions for employees who are older than age 70½, the only way persons of this age can have contributions made to a Traditional IRA.

☛ The SEP plan is vastly simpler and less expensive to set up and operate than any other company retirement plan, and at the same time is much more powerful and flexible.

- IRA owners (the employees) may separately make their own contributions to the SEP-IRA (but the total employer and employee contribution cannot exceed the 25% - \$49,000 limit).
- Sole proprietors, partnerships, limited liability companies, regular C corporations and S corporations may all set up SEP-IRAs.
- The company is not locked into making contributions every year. In fact, the employer decides each year whether, and how much, to contribute to its employees' SEP-IRAs.
- If the company files an extension on its tax return, the SEP contributions can be delayed until the return is filed, up to October 15<sup>th</sup> of the year following the contribution year, whereas with regular IRAs the prior year's contribution must be made by April 15<sup>th</sup>. This is another major benefit of SEPs compared to regular IRAs and other company retirement plans.
- Generally, the company does not file any tax forms or documents with the IRS, and SEP-IRA contributions made by the employer are not included on the employees' W-2 tax form. Employees do list and deduct any of their own IRA contributions on their federal tax return, but the employer's contribution is only deductible by the employer, not the employee.
- Employers who adopt an SEP plan must contribute to it for all employees, including the employer personally and part time or seasonal employees (union employees and those earning under \$500 per year do not have to be included). In most cases the employer is also required to include leased employees in the SEP.
- A uniform formula must be used for all employees in calculating contribution amounts. Normally the required formula is a fixed or uniform percentage of each employee's pay, though this may be a variable percentage from year to year, and the amount is determined solely by the employer.
- Employee salary cannot be reduced to provide or make up for any of the funds used for the company's contribution. The employees' salary is only used as a reference for calculating the employer's maximum contribution amounts.
- The company may be eligible for a tax credit of up to \$500 per year for each of the first 3 years for the cost of starting the plan.
- The IRA which employee's must use is the Traditional IRA *only*, no Roth IRAs are permitted.

- Contributions made by the company are always 100 percent vested with the employee. That is, the money belongs exclusively to the employee's IRA, subject to normal IRA rules.
- Because SEP contributions become the employee's IRA assets, these SEP-IRA assets may generally be transferred to other retirement plans in the same manner as any regular IRA.

<b>SEP-IRA Fee Schedule, American Estate &amp; Trust, LC</b>	<b>IRA Fees</b>
Plan set up for employer	None
Ongoing or annual employer fees	None
Set up cost per each employee/participant	50
Annual fee required from each employee participant*	Free to \$225*

\* Fees may be discounted for six or more employees, contact the person listed above for more info. For full fee details which employee participants may incur, including no-fee accounts, see our standard IRA fee schedule by clicking on "IRA Fees" on the left side of this page.

For still more SEP-IRA information, see IRS Publication 560 by clicking on "Articles" at IRACentral.com.

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**[www.IRACentral.com](http://www.IRACentral.com)**