

Retirement Planning

Small Business Retirement Plan - Simplified Employee Pension (SEP Plans)

Simplified Employee Pension SEP's save taxes and build retirement wealth for business owners and professionals. SEP's are becoming the work horse of small business retirement plans because they are:

- Simple & easy to establish
- Can be established after close of business year & after April 15th with extensions
- Employee eligibility can be up to 3 years of service
- Does not require IRS filing or Form 5500 reporting
- There are no administration costs
- Contributions are tax deductible & elective (contributions are not required from year to year)
- [Current year maximum contribution limits \(pdf\)](#)

SEP's are extremely effective for either an individual with a part-time business with no employees or any type business or professional practice with many employees. A SEP plan is a business sponsored IRA with higher contribution limits than an individual IRA and can be made to owner/employees over 70-1/2 years old. The maximum contribution to a SEP is the lesser of 25% of employee compensation or maximum annual Contribution Limits. For an owner of a sole proprietorship or partnership, the maximum contribution is limited to 20% of net Schedule C or the K-1 income minus one half of self employment tax percent or \$40,000 (indexed).

Surprisingly, a SEP Plan can be established and funded after December 31 and before filing the tax return by April 15, plus extension. A business can open a SEP Plan and make the contribution with two extensions (4 + 2 months) up to October 15 of the following year and still get a tax deduction. If your business is a corporation the maximum extension is Sept. 15th.

Unfortunately not too many know about this 6 month maximum extension for SEP's and pass up an opportunity to save taxes. This is a useful strategy for last minute tax planning and managing temporary cash flow problems around April 15th. The IRS allows you to take the deduction before you actually make the contribution. This can be an advantage if you owe taxes by April 15th and need to file an extension. The SEP deduction will reduce the taxes you must pay to avoid interest and penalties when you file the extension. Don't tell the IRS, but this is an interest free loan for the SEP contribution between the filing of the extension and the funding of the contribution by Oct. 15th.

The SEP contribution is an elective decision made by the business owner typically after the close of the business year and when the final financial results are available. There is no requirement for a yearly contribution and the percentages can vary from year to year from none up to 25%.

The typical investment is a mutual fund family with a diversified group of funds. The business owner selects the mutual fund and then uses the mutual fund's SEP documents (no cost). The employees open their own IRA account in the mutual fund group offered by the business. The investment decision, control of the account and IRA fees, if any, are the responsibility of the employee. All the business does is to send a list with the employees' account information and the amount of contributions with one check to the mutual fund. It's that simple and the responsibility transfers from the business to the employee.

If you haven't taken advantage of the SEP or the salary deferral SIMPLE-IRA plan, you are missing a great opportunity to save taxes and build retirement wealth. For the salary deferral plan, the SIMPLE-IRA can be established January 1 through October 1.

Note: You can have a SEP or SIMPLE but not both.

Email or call Harry Rubins at (800) 675-6171 or (707) 542-9449 for more information on how Simplified Employee

Pension SEP's can work for you.

The above information is not intended as legal or tax advice. Obtain professional advice before taking action on this information.