

A SIMPLIFIED EMPLOYEE PENSION PLAN FOR YOUR BUSINESS



Simplified Employee Pension

What is a Simplified Employee Pension (SEP) Plan?

A SEP plan is a retirement plan established by an employer. Each year, the employer can contribute a certain percentage of each eligible employee's compensation directly to the employee's traditional (SEP) IRA.

Am I Eligible for a SEP Plan?

As a business owner, whether incorporated or not, you may establish a SEP plan. Sole proprietors and partnerships can have SEP plans, even if there are no other employees. However, if your business currently maintains a qualified retirement plan, you cannot establish the Internal Revenue Service (IRS) model SEP plan for your business.

What is the Maximum SEP Contribution?

Under the IRS model SEP plan, you must contribute a uniform percentage of compensation for each eligible employee. The maximum contribution is the lesser of the contribution amount limit or 25 percent of each employee's compensation. The chart that follows shows these amounts.

SEP Plan Limits		
Tax Year	Contribution Amount	Compensation
2020	\$57,000	\$285,000
2021	\$58,000	\$290,000
2022 and later years	\$58,000 + COLA*	\$290,000 + COLA*

*Subject to annual cost-of-living adjustments (COLAs), if any.

For an employee, compensation is generally the Form W-2 wages from the employer sponsoring the SEP plan. For a self-employed person, compensation is his/her earned income from self-employment. Special adjustments to compensation are necessary before a self-employed person can apply the desired contribution percentage.

Straightforward Answers to Your SEP Plan Questions

Do I Get a Tax Deduction for My SEP Plan Contributions?

Yes! Dollars you contribute on behalf of yourself and your employees, within the previously-mentioned limits, are generally deductible as a business expense. A self-employed individual claims his/her personal SEP plan contribution as an adjustment to gross income on his/her personal income tax return.

Must I Contribute for Each of My Employees?

No. The SEP plan may exclude certain employees from an annual SEP plan contribution because of:

- **Age**—A SEP plan may exclude employees who are younger than 21 years of age. However, an employer must contribute for any eligible employee who has reached age 21, even those over age 72.
- **Service**—A SEP plan may exclude employees who have not worked in at least three of the immediately preceding five years.
- **Minimum Compensation**—A SEP plan may also exclude employees who have earned less than \$600 during 2020 and 2021 (subject to annual cost-of-living adjustments, if any).
- **Other**—A SEP plan may also exclude nonresident aliens receiving no U.S.-source income from the employer, as well as employees covered under a collective bargaining agreement if retirement benefits were a subject of negotiation.

Must I Contribute the Same Percentage Each Year?

No. You have until the due date of your business's federal income tax return to determine and make your SEP plan contribution each year. If you wish, you may skip the contribution entirely for any year.

What Happens to the Assets After I Make SEP Plan Contributions?

All SEP plan contributions are made to eligible employees' traditional (SEP) IRAs. Once the SEP contribution has been made, each employee's account will be subject to all of the traditional IRA rules. These include a penalty on withdrawals prior to age 59½ and required minimum distributions beginning at age 72¹.

What Happens to My Account in the Event of My Death?

Your named beneficiary(ies) will receive the rights to your account. Distributions to the beneficiary(ies) will be made in accordance with required minimum distribution rules and your IRA plan agreement.

May I Have a Traditional or Roth IRA in Addition to a SEP Plan?

Yes. You may contribute to traditional and/or Roth IRAs if eligible. If a SEP plan contribution is made, you are considered an active participant in an employer-sponsored retirement plan. Therefore, the deductibility of your traditional IRA contribution will depend on your modified adjusted gross income and income tax-filing status.

Is it Difficult to Establish a SEP Plan?

No. To establish an IRS model SEP plan, you must complete an IRS-approved form, provide a copy to each eligible employee, and have each of them establish a traditional (SEP) IRA. Your IRA custodian/trustee may also require a completed copy of the IRS Model SEP plan form.

When Can I Establish a SEP Plan?

The deadline for establishing or contributing to a SEP plan is your business's income tax-filing deadline, including extensions.

Can I Establish a SEP Plan That Allows Me and/or My Employees to Defer Salary Through the SEP Plan?

No, however an employer that had established a salary deferral SEP prior to 1997 could continue an existing SEP plan with this provision.

Is There a Tax Credit Available to Start a SEP Plan?

Yes. A tax credit under Internal Revenue Code 45E is available to offset pension plan startup costs for eligible small employers. The amount of the credit, beginning in tax year 2020, is the greater of 1) \$500 or 2) the lesser of a) \$250 for each eligible employee or b) \$5,000. The tax credit is available for the first year and the two taxable years immediately following.

A \$500 auto-enrollment tax credit may also be available under Internal Revenue Code 45T for an employer who establishes an eligible automatic contribution arrangement. The tax credit is available for a 3-taxable-year period beginning with the first taxable year that the eligible automatic contribution arrangement is established. Contact your tax or legal professional for detailed information about, as well as to determine your eligibility for, these tax credits.

How Do I Establish a SEP Plan?

See any of our retirement plan representatives and we will explain the nature of these plans in more detail. You should consult your tax or legal professional prior to establishing a SEP plan for your business.

¹ For tax years 2019 and earlier, required minimum distributions had to begin at age 70½.

This brochure is intended to provide general information on federal tax laws governing simplified employee pension plans. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to an employer's individual circumstances. For specific information, an employer should consult a tax or legal professional. IRS Publication 560, Retirement Plans for Small Business, IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), and the IRS's web site, www.irs.gov, may also provide helpful information.