



JM GetMoore Insurance & Financial Services

SEP IRA

Because having a retirement plan can be a key for a business to attract and retain quality employees, one of the most important decisions to make is whether to offer a plan in the benefits package. The Simplified Employee Pension plan (SEP), is easy to establish, inexpensive to administer and may be ideal for a business owner. The SEP IRA is a retirement plan designed to benefit self employed individuals and small business owners. Sole proprietorships, S and C corporations, partnerships and LLCs qualify.

SEP IRA contribution limits

In 2008 a SEP IRA has a contribution limit of \$46,000 (\$45,000 in 2007). Contributions to a SEP IRA are generally 100% tax deductible and investment earnings in a SEP IRA grow taxed deferred. Withdrawals after age 59 1/2 are taxed as ordinary income. Withdrawals prior to age 59 1/2 may incur a 10% IRS penalty as well as income taxes.

A SEP IRA has broad appeal due to its high annual contribution limits, completely discretionary and flexible annual contributions and minimal administration. SEP IRA plans can be established by a one person business or by a business owner with employees.

- Most frequently a SEP IRA is established by a business owner without employees and is discussed in detail below.
- In special situations a SEP IRA may be an ideal retirement plan for a business owner with employees.

SEP IRA for a self employed business owner without employees

The calculation of how much can be contributed to a SEP IRA is dependent on whether your business is a corporation and you receive a W-2 as compensation or if you are taxed as a sole proprietorship and receive compensation as personal income. Examples of both are shown below.

Business owner receives compensation as W-2 income

An S or C corporation, an incorporated partnership or a LLC electing to be taxed as a corporation pays the business owner a W-2 salary. In this situation, the annual SEP IRA contribution can be between 0% to 25% of the owner's W-2 salary up to the SEP IRA contribution limit. SEP IRA contributions are generally 100% tax deductible as a business expense.

Business owner receives compensation as personal income

When a SEP IRA is established for a unincorporated business such as a sole proprietorship, unincorporated partnership or a LLC electing to be taxed as a sole proprietorship, annual contributions are made into your SEP IRA account between 0 to 20% of your net adjusted self employment income (or net adjusted business profits). SEP contributions are flexible and the percentage of contribution can be changed at any time and may be skipped in a bad year. SEP IRA contributions are generally 100% tax deductible from personal income.

When is the SEP IRA setup and contribution deadline?

Generally a SEP must be established and funded by your tax filing deadline. Generally, filing extensions extends the period for establishing and funding the SEP plan. For a sole proprietor April 15th would be the deadline to establish and fund a SEP for the prior tax year. If an extension was filed a sole proprietor can establish and fund a SEP IRA by October 15th.

A self employed business owner with no full time employees other than a spouse may also want to consider an Individual 401k as well as a SEP IRA.

- A SEP IRA allows a contribution of up to 20% of net self employment income or 25% of W-2 wages, but an Individual 401k frequently permits a larger contribution at the same income level and may allow a greater contribution.
- Another feature of an Individual 401k versus a SEP IRA is an Individual 401k permits a loan up to 1/2 the value of the account up to a maximum of \$50,000

Disclosures:

* The information on this page is for informational purposes only and does not constitute, and should not be construed as, professional, legal or tax advice. To determine your individual tax situation and specific needs, please consult a professional tax advisor.

* Information contained in these sections merely highlights some benefits. There are risks involved with all investments that could include tax penalties and risk/loss of principal.