

# SEP

## (Simplified Employee Pension)

### The Simplified Retirement Plan for Your Business

#### What is a Simplified Employee Pension Plan?

- A simplified employee pension (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 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 employees. However, if you currently maintain 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 or 25 percent of each employee's compensation. The chart that follows shows these amounts.

SEP Plan Limits		
Tax Year	Contribution Amount	Compensation
2015	\$53,000	\$265,000

- 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.

#### 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

contributions 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 is older than age 21, even those over age 70 ½.
  - 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 \$450 during the year (subject to annual cost-of-living adjustments).
  - 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 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 IRAs. Once the SEP contribution has been made, each employee's account will be subject to all of the traditional IRA rules. These include limits on withdrawals prior to age 59 ½ and required minimum distributions at age 70 ½.

### 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 an SEP Plan?

- Yes. You and your employees 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-maintained 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 instruct each of them to establish a traditional IRA.

### 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.

### 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.