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**Ken Berry, JD** • Aug. 09, 2022



If you're a self-employed individual or other small business owner, you now have a wide range of retirement plan options at your disposal, just like the corporate giants. For convenience, you might want to keep things simple. In that case, the Simplified Employee Pension (SEP)-IRA is certainly a viable alternative.

**Icing on the cake: The Setting Every Community Up for Retirement Enhancement**

The (SECURE) Act provides extra tax incentives for using qualified plans like SEP-IRAs. Notably, the SECURE Act increases the maximum available credit for starting a plan to \$5,000 and creates a new credit of up to \$500 per year for automatic enrollment plans.

Basic premise: First off, the employer must contribute to a SEP-IRA for any employees

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account for these purposes is \$305,000.

Note: Employer contributions are discretionary. In other words, you're not locked into payments for the year. This allows you to boost contributions when business is booming or scale back contributions—or even make no contributions—in a year in which the business is struggling. However, you must contribute the same percentage of compensation for each plan participant.

The contributions to the SEP-IRA vest immediately. For instance, if an employee quits the day after the contribution is made, the money is still theirs to keep. In comparison, certain other qualified plans have “cliff vesting” or gradual vesting over a period of years.

As with other qualified retirement plans, early withdrawals made prior to age 59 ½ are subject to a 10% penalty tax, in addition to regular income tax, unless a special tax law exception applies. Similarly, under the SECURE Act, minimum distributions (RMDs) must begin in the year following the year in which an employee reaches age 72 (up from age 70½).

Practical advice: Get your SEP-IRA up and running before January 1, 2023. Otherwise, the contributions aren't currently deductible. However, a SEP may be set up and funded after the close of the tax year as long the paperwork is completed by the employer's tax return due date, plus extensions.

All you have to do to set up a SEP-IRA is fill out Form 5305-SEP and provide proper notification and copies to employees. You don't even have to file the form with the IRS. Finally, unlike most qualified plans, you're not required to provide the IRS with annual reports. This is truly an “easy” retirement plan to set up and operate.

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