



SEP IRA Definition

A Simplified Employee Pension (SEP plan) is a retirement plan that an employer or self-employed individual can establish. A SEP plan allows employers to contribute to a traditional individual retirement arrangement (SEP IRA) set up for an employee. A business of any size, even self-employed, can establish a SEP plan.

SEP IRA Plan Contribution Information

- SEP IRA's must be owned by an individual – joint ownership is **not** allowed.
- Catch up contributions and elective deferrals are **not** permitted in SEP plans.
- Employees are **not** able to contribute through a SEP plan. The employer **can** contribute on the employee's behalf.
- A SEP IRA owner may make a Traditional IRA contribution to the SEP IRA.
- Employees are always 100% vested in, or have ownership of all SEP IRA money.
- Employees are able to participate in a SEP IRA plan and still make regular contributions to a Roth IRA or a Traditional IRA.
- Employers are allowed to require employees to meet ALL of the requirements below to be eligible for a SEP IRA:
 - Be at least 21 years of age
 - Have worked for the business during any 3 of the past 5 years
 - Have earned the \$600 annual minimum required compensation
- Employers make SEP plan contributions each year on a discretionary basis.
- If an employer makes a contribution the employers must contribute to a SEP IRA for each employee that is eligible to participate in the SEP plan, even if they are over age 72.
- Employers may contribute up to 25% of each employee's annual compensation however they **cannot** exceed the maximum SEP contribution limit in 2021 of \$58,000.

2021 SEP IRA

Annual Employer Maximum Contribution Dollar Limit	\$58,000
Annual Employer Maximum Percentage of Compensation Limit	Up to 25% of Compensation

SEP IRA Tax Information

- Contributions to your SEP IRA are **not** subject to federal income tax until withdrawn.
- SEP IRAs require you to begin taking required minimum distributions starting at age 72, even if contributions are still being made by your employer.
- SEP IRA plan contributions are tax deductible for the employer.
- Contributions to employees SEP IRA's will not be included in their gross income unless they are excess contributions.
- Employees may incur a 6% excise tax on all excess contributions to a SEP IRA.
- Employers may incur a 10% excise tax on all excess SEP plan contributions.

Withdrawal & Distribution Information

- Withdrawals or distributions, including interest earnings, are considered **taxable** income when taken unless non-deductible contributions were made to any Traditional IRA or SEP IRA.
- A SEP IRA can be rolled over into a Traditional IRA or qualified plan with **no** tax consequences as long as the rollover is completed within a 60-day period.
- SEP IRA's and Traditional IRA's **can** be "rolled over" or transferred into a SIMPLE IRA after two years of participation in the SIMPLE IRA plan.
- SEP IRA's do **not** allow loans to be taken and the asset may **not** be used as collateral.
- A 10% federal additional tax may be applied to withdrawals taken before the age of 59 ½.