

SEP IRAs are retirement plans that allow an employer to make discretionary, tax-deductible contributions to their employees' accounts. These plans can also be utilized by self-employed individuals. Each eligible employee establishes an individual SEP IRA account at a financial institution and the employer makes contributions on their behalf. The employee owns and controls the account, while the employer determines the frequency and the amount of contributions.

## Advantages of a SEP



**Choice:** The employer chooses how much to contribute to employee accounts.



**Simplicity:** Easy to establish; IRS Form 5500 is generally not required if Form 5305-SEP and its instructions are distributed to employees.



**Low cost:** Minimal set-up and maintenance fees.



**High contribution limits:** For 2025, employers can contribute up to the lesser of \$70,000 or 25 percent of compensation. For 2026, the contribution limit is lesser of \$72,000 or 25% of compensation.



**Flexibility:** Employer decides what percentage and how often to contribute; there are no requirements to contribute.



**Integration:** Social Security integration is allowed.



**Eligibility requirements:** Any employee who is 21 years old and earned at least \$800 in three of the previous five years must be eligible for the plan.

## Other SEP considerations

- Employer must contribute an equal percentage to each participant's account.
- The employee owns and controls the account.
- Top-heavy testing must be performed.
- All contributions are immediately 100 percent vested.
- Loans are not permitted.
- Self-employed individuals, C or S corporations, sole proprietorships and partnerships are eligible.

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