

KEY TAKEAWAYS OF THE SEP IRA

WHAT IS A SEP IRA?

A SEP IRA is a type of traditional IRA for self-employed individuals or small business owners (SEP stands for Simplified Employee Pension). Any business owner with one or more employees, or anyone with **freelance income**, can open a SEP IRA.



WHAT ARE THE BENEFITS OF A SEP IRA?



It allows for a tax-deductible contribution of up to **25% of each employee's pay**, higher than the contribution limits of individual plans like Traditional and Roth IRAs.

Allows for investments that are similar to IRAs including stocks, bonds, mutual funds and ETFs.

WHAT ARE THE CONTRIBUTION LIMITS?

For 2018, maximum contribution is **\$55,000** maximum determined as follows –

- Employee compensation **up to \$275,000** in 2018 may be considered. If you're self-employed, see below as a special calculation to determine contributions for yourself.
- Calculating the maximum SEP IRA contributions for self-employed individuals can be tricky, as the salary of the account holder is calculated after the contribution is made. Not including limits, the calculation is **18.587045%** (approximately 18.6%) of net profit¹. Your tax professional should be able to assist you in calculating the exact allowable amount based on your self-employed income for the year.
- You can be self-employed as a sole proprietor or sole practitioner of a company or employed under a closely-held LLC structure.



IMPORTANT TO NOTE

Employee elective deferrals and catch up contributions are not permitted in SEP IRA plans. **Only employer contributions are allowed.**

It's important to remember that **maximizing a Sep IRA contribution will reduce your tax obligation in the year you file**, as you pay taxes on your contribution in the future, when you may be in a lower tax bracket during retirement.



FUNDING THE SEP IRA



With a SEP IRA, you choose the percentage of contribution for any given year (0-25% of earned income) for yourself. This offers a tremendous amount of flexibility to business owners who don't have mandatory annual contributions to the plan.

WHAT IS THE CONTRIBUTION DEADLINE?

Deadline to open and contribute to a SEP IRA – **April 15th of the following year or October 15th of the following year** if an extension has been filed. This means that contributions for a given tax year can be made up to the final tax filing date the following year.

¹ <https://www.investopedia.com/articles/personal-finance/010516/sep-ira-limits-2016.asp>

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