



Small Business Retirement Accounts

SEP and SIMPLE IRAs

SIMPLE IRA

What is a SIMPLE IRA?

A SIMPLE (Savings Incentive Match Plan for Employees) is an IRA-based plan that gives employers an easy way to make contributions toward their employees' and their own retirement. A SIMPLE IRA is specifically designed for self-employed individuals or small businesses, generally with 100 employees or fewer in the preceding year.

A SIMPLE IRA is a tax-deferred, salary-reduction plan. Employees can choose to make contributions from their paychecks up to the allowable limit. The employer must also contribute to the plan; they can choose to either match the employee's contribution dollar for dollar up to 3% of the employee's compensation, or contribute a profit sharing contribution equal to 2% of the employee's compensation. To be eligible, the employee must have met the plan's service requirement and must be expected to make at least \$5,000 in compensation the current year. All contributions are made directly to a SIMPLE IRA that has been established for each employee.

Contributions to a SIMPLE IRA are tax deferred. The contribution amount is excluded from your gross income. Funds are taxed when they are withdrawn. Employer contributions may be used as a tax deduction by the employer.

By establishing a self-directed SIMPLE IRA, your retirement funds can be invested in non-traditional investments such as real estate, notes, precious metals, private placements, and more.

Consider an Entrust Self-Directed SIMPLE IRA if:

- ◆ You have a company with fewer than 100 employees.
- ◆ You are looking for a plan with low start-up and administrative costs.
- ◆ You want a plan that provides you and your employees a simplified way to contribute toward retirement.
- ◆ You want a plan that can help you attract and retain quality employees while reducing business taxes.
- ◆ You would like flexibility in how much to contribute to the employees' plan.
- ◆ You do not sponsor any other retirement plan.

SIMPLE IRA Rules

The deadline for setting up a SIMPLE IRA is October 1 of the calendar year. Unchanged from 2020, the maximum deferral contribution amount in 2021 is not to exceed \$13,500. If age 50 or older, individuals can contribute an additional \$3,000. The employer's SIMPLE IRA contribution deadline for employees must be made by the employer's tax return due date including extensions.

SEP IRA

What is a SEP IRA?

A SEP (Simplified Employee Pension) provides an easy, flexible, low-cost retirement option for a small business. A SEP is an employer plan that allows the employer to make contributions for themselves and their employees. Contributions made to each employee's Traditional (SEP) IRA may be used as a tax deduction for the employer.

A SEP IRA does not have the start-up and operating costs of a conventional employer plan, nor does the employer have to contribute the same amount each year. The employer can make tax-deductible contributions of up to 25% of each employee's compensation not to exceed \$58,000, up from \$57,000 in 2020 (Employers/ owners are also considered employees therefore are also entitle to receive the same level of contribution). With a Self-Directed SEP IRA, the employee has the added benefit of choosing how to invest their funds.

Consider an Entrust Self-Directed SEP IRA if:

- ◆ You are a sole proprietor, partnership, corporation, or S corporation.
- ◆ You don't want to be locked into making contributions every year.
- ◆ You want a plan with low administrative costs.
- ◆ You want a wider range of investment choices, including real estate, notes, private placements, and LLCs.
- ◆ If you have an existing Tradition or SEP IRA but it doesn't allow self-direction, you can transfer or consolidate all or part of the funds to an Entrust Self-Directed SEP IRA.

SEP IRA Rules

- ◆ You can choose what percentage to contribute in any given year — up to 25% of earned income — as long as the percentage is the same for each employee.
- ◆ The maximum compensation amount that can be used for calculating contributions is \$290,000 for 2021.
- ◆ Contributions are capped at \$58,000 for 2021, up from \$57,000 in 2020.
- ◆ As an employer, you can deduct the amounts contributed for yourself and your employees.
- ◆ Each employee has complete control over how to invest the contributions from the employer.
- ◆ For a given tax year, you can make your contribution up to the due date of your income tax return, including extensions.

You cannot open a SEP Roth IRA, but can convert your SEP IRA funds to a Roth if you want to enjoy the tax-free benefits of a Roth IRA.

What are the eligibility requirements?

Employees must meet the following requirements to be included in the SEP plan:

- ◆ Attained age 21
- ◆ Worked for the employer in at least 3 of the last 5 years

In addition to the eligibility requirements, employees may be required to meet a minimum compensation to receive a contribution from their employer for the year:

- ◆ At least \$650 in compensation for the 2021 year, up from \$600 in 2020.

An employer may use less restrictive eligibility requirements, for example age 18 or one year of employment. Eligibility requirements can be established by completing IRS Form 5305-SEP.

An employer can exclude employees from coverage based on the following:

- ◆ Employees covered by a union agreement and whose retirement benefits were bargained for in good faith by the employees union and the employer
- ◆ Non-resident alien employees who have received no U.S. source of wages, salaries, or other personal services compensation by the employer

Start Saving Today

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If you would like to learn more about how you can benefit from self-direction, please take advantage of free, live and pre-recorded events offered through any one of our nationwide offices.

SEP and SIMPLE Comparison for 2021

SEP

SIMPLE

Employer Eligibility ▶	Any business owner (i.e., sole proprietor, partnership, corporation, or earn self-employment income by providing service).	Generally, have 100 or fewer employees who earned at least \$5,000 in the preceding year. Cannot sponsor any other retirement plan.
Employee Eligibility ▶	<ul style="list-style-type: none"> ◆ Have reached age 21 ◆ Have worked for the employer for at least 3 of the last 5 years ◆ May be waived by an employer 	<ul style="list-style-type: none"> ◆ Have worked for the employer for 2 years ◆ Must expect to receive \$5,000 of compensation for the current year
Tax Benefits ▶	Employer contributions are tax deductible with tax-deferred growth.	Employer contributions are deductible as business expense. Tax-deferred growth, pre-tax contributions.
Deadline to Establish a Plan ▶	Due date (including extensions) of your business income tax return for the year you want to establish the plan.	October 1 of the calendar year that the plan takes effect.
Responsibilities ▶	Employee must open an individual SEP IRA account.	Administrator must meet certain annual employee notifications. Each eligible employee must establish a SIMPLE IRA to receive contributions.
Contributions ▶	Must be made by employer but can vary each year between 0%-25% of compensation, with a maximum of \$58,000, and each eligible employee must receive the same percentage.	<p>Employer: Mandatory 3% match, or 2% non-elective contribution.</p> <p>Employee: Up to 100% of compensation (not to exceed \$13,500 per year), with an additional \$3,000 for individuals who are age 50 and over.</p>
Required Minimum Distributions (RMDs) and Early Distribution Penalty ▶	Begin at age 72 Early withdrawal penalty of 10% if under age 59 ½ (unless exception applies).	Begin at age 72. Early withdrawal penalty of 10% (25% if in first two years of plan participation) if under age 59 ½ (unless exception applies).