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 preceeding 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 expect 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 Funds are taxed when they are withdrawn.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. In 2019, the maximum deferral contribution amount is not to exceed $13,000. 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 $56,000 (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 $280,000 for 2019.
- Contributions are capped at $56,000 for 2019.
- 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 $600 in compensation (in 2018 and 2019) for the year

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

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SEP and SIMPLE Comparison for 2019

	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	• Have reached age 21 • Have worked for the employer for at least 3 of the last 5 years • May be waived by an employer	• 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 $56,000, and each eligible employee must receive the same percentage.	**Employer:** Mandatory 3% match, or 2% non-elective contribution. **Employee:** Up to 100% of compensation (not to exceed $13,000 per year), with an additional $3,000 for individuals who are age 50 and over.
Required Minimum Distributions (RMDs) and Early Distribution Penalty	Begin at age 70 ½. Early withdrawal penalty of 10% if under age 59 ½ (unless exception applies).	Begin at age 70 ½. Early withdrawal penalty of 10% (25% if in first two years of plan participation) if under age 59 ½ (unless exception applies).