

SEPs and SIMPLEs

Small employers and self-employed individuals should consider making a contribution to a retirement plan as part of year-end tax planning. Simplified employee pension plans (SEP) and savings incentive match plans for employees (SIMPLE) are retirement arrangements that offer a substantial practical advantage over other types of qualified plans due to simplified administration and lower administrative costs. Both SEPs and SIMPLE accounts can be established before the return due date (including an extended due date) for the preceding tax year.

A simplified employee pension plan (SEP) is an arrangement under which the employer contributes directly to an employee's SEP individual retirement account or individual retirement annuity. The advantage is that the maximum SEP contribution is greater than the maximum contribution that may be made to regular IRAs. An employer's SEP contributions are deductible and are also excludable from the gross income of employees. A SEP arrangement does not require the employer to contribute minimum or annual amounts. The decision of whether to make SEP contributions may be made on a year-to-year basis at the employer's discretion.

A savings incentive match plan for employees (SIMPLE) is a simplified retirement plan for small businesses. A SIMPLE can be either an IRA for each employee, referred to as a SIMPLE IRA plan, or a 401(k) plan. SIMPLE plans are meant to encourage small businesses to provide retirement plans for their employees without getting involved in the complexities of most other types of qualified plans. SIMPLEs are not subject to nondiscrimination rules and have simplified reporting requirements.

Any employer can establish a SEP, but, if the employer wants to include elective contributions under a salary-reduction arrangement, the arrangement cannot have more than 25 eligible employees and at least 50 percent of those employees must elect to participate. A SIMPLE account must permit elective contributions and may only be maintained by an employer with 100 or fewer employees earning at least \$5,000 annually.

SEPs and SIMPLEs offer advantages over other retirement arrangements. Please call our office at your earliest convenience. We will be happy to discuss eligibility to establish a retirement plan and the tax benefits of a current year contribution.