

SEP IRA

By **Jason Watson, CPA**

Posted Monday, December 30, 2024

Simplified Employee Pension Individual Retirement Arrangement. Yes, the A in IRA does not stand for Account, it technically is Arrangement but if you say Account, it's okay. We know what you mean. But if you call your IRA a 401k, our OCD does not allow us to let that one go. IRAs are not 401ks and 401ks are not IRAs. From what we understand, we can no longer say "our OCD." Our apologies. So many words and phrases we used to say... it's probably better that we don't anymore. We digress...

How about this? Our super highly stressful and highly technical profession coupled with the desire to be hyper accurate cannot let you call your 401k plan and IRA and vice versa. Bagels and donuts are both breakfast foods, but that is where it ends. Hopefully that explanation is better than the OCD reference.

Back to business. As an employee, you do not make contributions to a SEP IRA, the business does so on your behalf. Yes, it is a tax deduction to the business which is essentially a tax deduction to you. The business can contribute 20% of business income (for sole proprietors, single-member LLCs and partnerships) or 25% of your salary (for corporations such as S Corps). There are no catch-up provisions since the business is making the contribution.

All eligible employees must have a pro-rata employer contribution. So, if you make \$100,000 and your assistant makes \$30,000, if the business contributes 10% on your behalf it must do the same for your assistant.

Four reasons why these are fading (but there is a silver lining below)-

- SEP IRAs require much higher salaries to reach the \$70,000 maximum retirement savings for the 2025 tax year,
- Pro-rata contributions strictly based on salaries is no more beneficial or less restrictive than a 401k with Safe Harbor, and
- The administrative costs of 401k plans have been reduced to that of a SEP IRA.
- Another consideration is that the SEP IRA does not allow for plan loans whereas 401k plans do (up to \$50,000 for the 2024 tax year).

SEP IRA contributions are due with the associated tax return including extensions (similar to employer contributions in 401k plans). An interesting yet allowed tactic is to always file an extension for your tax returns. This allows you to file your tax returns any time up to the extension deadline, but not make the employer contribution until the extension deadline. Huh? Hang in there on this one. Here is another way of saying it-

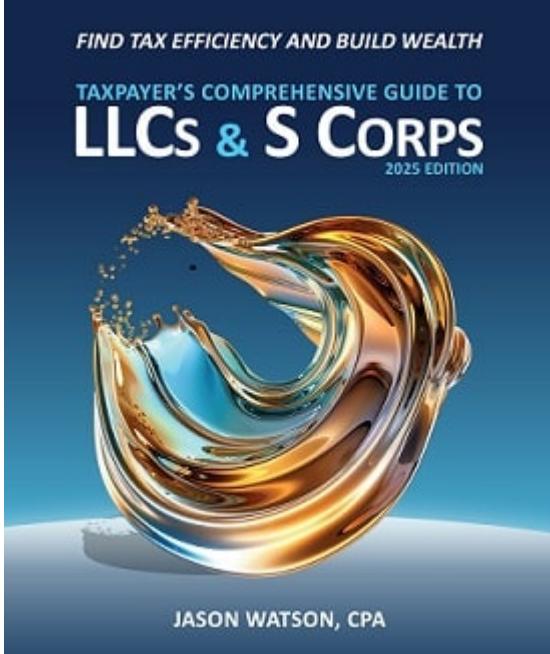
You could file an extension on February 1. File your Form 1040 on March 1. And make the contribution on October 15. However, if you skipped the extension filing and simply filed your Form 1040 on March 1, your SEP IRA contribution is due April 15. Weird. Then again, we don't make the rules, we just tell you about them.

SEP IRAs are old school in favor of the 401k plan. Prior to the SECURE Act, 401k plans must be implemented before the calendar year is over, SEP IRAs can be used for crisis management after the fact. As such, December 31st can come and go blowing up your desire to have a self-employed 401k plan, but a SEP IRA can be created after January 1 and allow for previous year contributions and tax deductions.

However, with the SECURE Act, you can open a 401k plan in 2025, and make employer contributions in 2025 but have them earmarked for the 2024 tax year. Employee deferrals are not available in this fashion. So, your 401k plan is not "retro'd" back to the previous year, but the SECURE Act provisions allows for prior year contributions. Subtle difference. You can think of this similar to a SEP IRA which can be opened in 2025, contributed in 2025, but applied to 2024.

[vc_row el_class="hide_socials"] [vc_column][vc_empty_space height="25px"] [vc_raw_html
css=""]]JTNDCUyMHN0eWxIJTNEJlydGV4dC1hbGlnbiUzQSUYMGNIbnRlcIuZQiUyMiUzRSUzQ2VtJTNFSmFzb24IMjBXYXRzb24IMkMI
MjBDUEEIMkMIMjBpcyUyMGEIMjBTZW5pb3IMjBQYXJ0bmVyJTIwb2YIMjAIM0NzcGFuJTIwc3R5bGUIM0QIMjjb2xvciUzQSUYMCUyMzV
kM2ZkMyUzQiUyMiUzRSUzQ3N0cm9uZyUzRVdDRyUyMENQQXMIMjAIMjZhbXAIM0IIMjBBZHpc29ycyUzQyUyRnN0cm9uZyUzRSUz
QyUyRnNwYW4IM0UIMkMIMjBhJTIwYm91dGlxWUIMjB5ZXQIMjBwcm9ncmVzc2I2ZSUyMHRheCUyQyUyMGFjY291bnRpbcIM0Nici
UyMCUyRiUzRWFuZCUyMGJ1c2luZXNzJTIwY29uc3VsdGF0aW9uJTIwZmlybSUyMGxvY2F0ZWQIMjBpbilUyMENvbG9yYWRvJTIwc2Vyd

mluZyUyMHNtYWxsJTIwYnVzaW5lc3MIMjBvd25lcnMIMjBhbhQIMjB0YXhwYXllcnMIMjB3b3JsZHdpZGUuJTNdJTJGZW0IM0UIM0NiciUy
 MCuYRiUzRSUzQ2JyJTIwTJGJTNDYSUyMGhyZWYIM0QIMjjodHRwcyUzQSUyRiUyRnd3dy5saW5rZWRpb5jb20IMkZpb1UyRmphc
 29uLXdhdHNvbi1jcGEIMkYIMjIIM0UIM0NpbWcIMjBjbGFzcUyMmFsaWdubm9uZSUyMHdwLWltYWdlTE3MzI3JtlyJTIwc3jjTNEj
 TlyAHR0cHMIM0EIMkYIMkZ3Y2dpbmMuY29tJGd3AtY29udGVudCUyRnVwbG9hZHMIMkYyMDlwJTGMDIIIMkZsaW5rZWRpb1OzMDB
 4MzAwLnBuZyUyMiUyMGFsdCUzRCUyMkphc29ujTIwV2F0c29ujTIwQ1BBJTIwTGlua2VksW4IMjIIMjB3aWR0aCUzRCUyMj1JtlyJTIwa
 GVpZ2h0JtNEjTlyMjUIMjIIMjAIMkYIM0UIM0MIMkZhJTNFJTI2bmjzcCUzQiUyNm5ic3AlM0IIIMjZuYnNwJTNcJTI2bmjzcCUzQiUyNm5ic3Al
 M0IIIM0NhJTIwaHJjZiUzRCUyMm1haWx0byUzQWphc29ujTQwd2NnaW5jLmNvbSUyMiUzRSUzQ2ltZyUyMGNsYXNzJTNFJTIyYWxpZ25
 ub25lJTIwc2l6ZS10aHvtYm5haWwIMjB3C1pbWFnzs0xNzMzNCUyMiUyMHNyYyUzRCUyMmh0dHBzJTNBJTJGJTGd2NnaW5jLmNvb
 SUyRndwLWNvbnRlnQIMkZ1cGxvYWRzJTGmjAyMCUyRjAyJTGbWFpbC0xNTB4MTUwLnBuZyUyMiUyMGFsdCUzRCUyMkphc29ujTI
 wV2F0c29ujTIwQ1BBJTIwRW1haWwIMjIIMjB3aWR0aCUzRCUyMj1JtlyJTIwaGVpZ2h0JtNEjTlyMjUIMjIIMjAIMkYIM0UIM0MIMkZhJTNF
 TNDJTJGcCUzRQ===[/vc_raw_html][vc_empty_space height="25px"] [vc_column_text css=""]



Taxpayer's Comprehensive Guide to LLCs and S Corps 2025 Edition

This KB article is an excerpt from our 420+ page book (some picture pages, but no scatch and sniff) which is available in paperback from **Amazon**, as an eBook for **Kindle** and as a **PDF** from ClickBank. We used to publish with iTunes and Nook, but keeping up with two different formats was brutal. You can cruise through these KB articles online, click on the fancy buttons below or **visit our webpage** which provides more information.[/vc_column_text][vc_empty_space height="25px"] [vc_raw_html css=""] [JTNDdGFibGUIMjBzdHlsZSUzRCUyMndpZHRoJTNBJTIwNDAlMjUIM0IIIMjIIM0UIMEEIM0N0Ym9keSUzRSUwQSUzQ3RyJTNFJTBB
 JTNDdGQIMjBzdHlsZSUzRCUyMnRleHQtYWxpZ24IM0EIMjBjZW50ZXIM0IIIMjB3aWR0aCUzQSUyMDMzJTI1JTNcJtlyJTNFJTNDYSUyMG
 hyZWYIM0QIMjjodHRwcyUzQSUyRiUyRndjZ2luYy5jb20IMkZhbwF6b24IMjIIMjB0YXJnZXQIM0QIMjjfYmxhbmsIMjIIM0UIM0NpbWcIMjB
 jbGFzcUyMndwLWltYWdlTE1NDY0JTIwc2l6ZS1mdWxsJTIwYWxpZ25ub25lJtlyJTIwc3JjjJTNFJtlyAHR0cHMIM0EIMkYIMkZ3Y2dp
 bmMuY29tJGd3AtY29udGVudCUyRnVwbG9hZHMIMkYyMDE5JTGMDgIMkZhbwF6b24taW1hZ2VyZXNpemVklLnBuZyUyMiUyMGFs
 dCUzRCUyMnMIMjBjb3JwJTIwYm9vayUyMGftYXpvbiUyMiUyMhdpZHRoJtNEjTlyNTAlMjIIMjBoZWlnaHQIM0QIMj1MCUyMiUyMCUyRi
 UzRSUzQyUyRmEIM0UIM0MIMkZ0ZCUzRSUwQSUzQ3RkjTIwc3R5bGUIM0QIMj0Zxh0LWFsaWduJTNBJTIwY2VudGVyJTNcJTIwd2Ik
 GglM0EIMjAzMyUyNSUzQiUyMiUzRSUzQ2EIMjBocmVmJTNFJtlyAHR0cHMIM0EIMkYIMkZ3Y2dpbmMuY29tJGdGa2luZGxJtlyJTIwdGFy
 Z2V0JTNFJtlyX2JyYW5rJtlyJTNFJTNDaW1nJTIwY2xhc3MIM0QIMj3cC1pbWFnzs0xNTQ2NSUyMHNpemUtZnVsbCUyMGFsaWdumb9u
 ZSUyMiUyMHNyYyUzRCUyMmh0dHBzJTNBJTJGjtGd2NnaW5jLmNvbSUyRndwLWNvbnRlnQIMkZ1cGxvYWRzJTGmjAxOSUyRja4JtJ
 Ga2luZGxJLWltYWdlcmVzaXplZC5wbmcIMjIIMjBhbHQIM0QIMjjzJTIwY29ycCUyMGJvb2sIMjBraW5kbGUIMjIIMjB3aWR0aCUzRCUyMju
 wJtlyJTIwaGVpZ2h0JtNEjTlyNTAlMjIIMjAIMkYIM0UIM0MIMkZhJTNFJTNDJtGdGQIM0UIMEEIM0N0ZCUyMHN0eWxJtNEjTlydGV4dC1h
 bGlnbiUzQSUyMGNlbnRlciUzQiUyMhdpZHRoJTNBJTIwMzMIMjUIM0IIIMjIIM0UIM0NhJTIwaHJjZiUzRCUyMmh0dHBzJTNBJTJGd2Nna
 W5jLmNvbSUyRnBkZiUyMiUyMHRhcmdldCUzRCUyMl9ibGFuayUyMiUzRSUzQ2ltZyUyMGNsYXNzJTNFJtlyd3AtaW1hZ2UtMTU0NjYI
 MjBzaXplWZ1bGwIMjBhbGlrbm5vbmuIMjIIMjBzcmMIM0QIMjjodHRwcyUzQSUyRiUyRndjZ2luYy5jb20IMkZ3cC1jb250ZW50JTGdXB
 sb2FkcyUyRjlwMTkIMkYwOCUyRIBERnjlc2l6ZWQucG5njTlyJTIwYWx0JtNEjTlycUyMGnvbnAImjBib29rJTIwcGRmjTlyJTIwd2Ik
 dGglM0QIMjI1MCUyMiUyMGhlaWdodCUzRCUyMjUwJtlyJTIwJTGJTNFJTNdJtGJGSUzRSUzQyUyRnRkjtNFJTBbjTNdJtGdHIM0UIMEEIM0N0ci
 uZRSUwQSUzQ3RkjTIwc3R5bGUIM0QIMj0Zxh0LWFsaWduJTNBJTIwY2VudGVyJTNcJTIwd2IkGglM0EIMjAzMyUyNSUzQiUyMiUzRSUz
 Q3N0cm9uZyUzRSUyNDQ5Ljk1JTNdJtGc3Ryb25njTNFJTNdJtGdGQIM0UIMEEIM0N0ZCUyMHN0eWxJtNEjTlydGV4dC1hbGlnbiUzQ
 SUyMGNlbnRlciUzQiUyMhdpZHRoJTNBJTIwMzMIMjUIM0IIIMjIIM0UIM0NzdHJvbmcIM0UIMjQzOS45NSUzQyUyRnN0cm9uZyUzRSUzQy

UyRnRkjTNFJTBBJTNDdGQIMjBzdHlsZSUzRCUyMnRleHQtYWxpZ24IM0EIMjBjZW50ZXIIM0IIMjB3aWR0aCUzQSUyMDMzJTI1JTNCTlyJTNFJTNDc3Ryb25njTNFjTl0MjkuOTUIM0MIMkZzdHJvbmcIM0UIM0MIMkZ0ZCUzRSUwQSUzQyUyRnRyJTNFJTBBJTNDJTJGdGJvZHkIM0UIMEEIM0MIMkZ0YWJsZSUzRQ==[/vc_raw_html][/vc_column][/vc_row][vc_row][vc_column][vc_empty_space height="25px"][/vc_column_text css=""]

Wanna Talk About Your Small Business?

Please use the form below to tell us a little about yourself, and what you have going on with your small business or 1099 contractor gig. [WCG CPAs & Advisors](#) are small business CPAs, tax professionals and consultants, and we look forward to talking to you![/vc_column_text][vc_raw_html css=""]JTCd2NnLWNvbnRhY3QtdXMINUQ=[/vc_raw_html][vc_empty_space height="25px"][/vc_column][/vc_row]