

The SEP IRA

What is a SEP IRA?

A Simplified Employee Pension Plan (SEP) is a tax-advantaged pension program which permits employers to make contributions to an IRA account maintained by their employees. As the name implies, a SEP is the simplest form of a retirement plan available. Unlike many other types of retirement plans, there is no need for an actuary or administrator, there are no set-up fees, and there is no government reporting required – all this with minimal plan expense.

Who Should Consider A SEP?

The most common use of a SEP is by unincorporated sole proprietors who will use the SEP as an alternative to a simplified profit sharing plan, but any employer can establish the Plan. The SEP is best suited to small business owners. Although an individual employee cannot establish a SEP for his W-2 income derived from his employer, an employee with outside income such as consulting fees, director's fees, realty commissions or other types of self-employment income would be eligible to establish a SEP and contribute based on the earned income received from the outside source.

Ask your Oppenheimer Financial Advisor for our "Retirement Plan Options *A Quick Review*" brochure that compares a simplified profit sharing plan to a SEP and other plan types.

How Does A SEP Work?

A SEP is established by an employer, i.e., a self-employed individual, partnership or corporation.

A SEP is very similar to a profit sharing plan in many respects, and is funded by the employer. Contributions are flexible and range from 0 to 25% of compensation (although self-employed individuals are generally subject to reduced contribution percentages) each year.

While the election to adopt a SEP is done exclusively by the employer, each eligible employee must establish a separate SEP IRA account. A SEP can be established only if an employer or a sole proprietor decides to contribute to a SEP for all eligible employees.

Once an employer has adopted a SEP, they may make deductible contributions directly to their employee's Oppenheimer SEP IRA each year.

What Contributions Can Be Made To a SEP?

Maximum dollar contributions for an eligible employer to a SEP based on 2014 income is limited to the lesser of 25% of compensation or \$52,000. The maximum amount of compensation that may be taken into account when calculating contributions to the SEP plan for 2014 cannot exceed \$260,000.

The contribution percentage can vary from year to year. Under a SEP, for example, a 25% of compensation contribution can be made in year 1, no contribution in year 2, and 5% in year 3. Again, the amount of any SEP contribution is determined annually by the employer. There are no required contributions under a SEP.

What Are The Benefits of Contributing to a SEP?

Contributions made to the SEP are deductible by the employer. To get a tax deduction for any year, the SEP must be established and funded by the due date of the employer's income tax return, including extensions. Unlike a simplified or flexible qualified plan, a SEP need not be established by year- end in order to qualify for a tax deduction.

Earnings on SEP contributions grow tax deferred until distributed. Since all SEP contributions are deposited in IRA Accounts, distributions are treated as ordinary income for tax purposes and are not eligible for special tax treatment. In short, distribution rules for SEPs are the same as with regular IRAs; i.e., distributions prior to age 59 ½ are generally subject to a 10% premature distribution excise tax and distributions must commence by the April 1st of the year following attainment of age 70 ½.

Whether or not you as an employer make a SEP contribution, employees may also make an IRA contribution to their SEP IRA Account for the year up to the annual IRA limit.

What Are the Participation Requirements?

In order for an employee to be eligible for 2014, the employer can require that each employee has completed service in 3 of the last 5 years, be at least age 21 and earn at least \$550. Of course, the employer can always be less restrictive.

How Does an Employer Establish and Maintain a SEP?

A SEP IRA Account must be set up for each eligible employee in addition to the employer. The employer, must also formally adopt the plan for the employer's business. To formally adopt the plan, the employer should complete the top portion of IRS Form 5305-SEP, make copies and distribute one to each eligible employee.

Aside from the Form 5305-SEP or an appropriate adoption agreement, which need not be filed with the IRS, there are no annual reporting requirements for a SEP. There is no Form 5500 filing requirement for a SEP.

**For additional information on SEP IRAs, or to receive a SEP IRA application,
contact The Goldenberg Group of Oppenheimer & Co. Inc.!**