## How a SEP-IRA Works

#### **EMPLOYER**

- Contributes for all qualified employees.
- Contributions are generally tax deductible.
- Plan is flexible (contributions are not required each year).
- Generally little or no administrative expense.

#### SEP-IRA

- A separate IRA (traditional or Roth) exists for each participant.
- Earnings accumulate taxdeferred.
- Plan is self-directed (employee controls investments).
- Investment risk remains on employee.

### EMPLOYEE

Maximum 2023 allocation to a SEP for an employee is \$66,000. For a self-employed individual, the limit is also \$66,000.

#### EARLY WITHDRAWALS

- Traditional SEP IRA a 10% penalty generally applies to withdrawals before age 59½, with some exceptions available. Earnings and contributions taxed as ordinary income.
- Roth SEP IRA "Qualified" distributions are not subject to tax.<sup>1</sup> The earnings portion of a nonqualified distribution is taxable as ordinary income.

#### RETIREMENT

- Traditional SEP IRA Required minimum distributions must begin by April 1 of the year following the year the owner reaches age 73.<sup>2</sup> Earnings and contributions taxed as ordinary income.
- Roth SEP IRA no minimum distribution is required during the life of the owner. Qualified distributions are received income-tax free.

#### DEATH

- Value of IRA is included in owner's gross estate.
- Proceeds can pass to beneficiaries with payments over varying time periods.
- Income and estate taxes can severely reduce funds left to nonspousal beneficiaries.

<sup>&</sup>lt;sup>1</sup> Generally, a "qualified" distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds for first-time homebuyer expenses.

<sup>&</sup>lt;sup>2</sup> Under the SECURE 2.0 Act of 2022, the age to begin RMDs increases to (1) age 73 for those who turn 72 after 2022 and age 73 before 2033; and (2) to age 75 for those who turn 74 after 2032. Previously, age 72 was the mandated age to begin RMDS.

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