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 tax-deferred.
- Plan is self-directed (employee controls investments).
- Investment risk remains on employee.

EMPLOYEE

- Maximum 2024 allocation to a SEP for an employee is $69,000. For a self-employed individual, the limit is also $69,000.

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.[1] The earnings portion of a non-qualified distribution is taxable as ordinary income.

RETIREMENT

- Traditional SEP-IRA – Required Minimum Distributions (RMDs) must begin by April 1 of the year after the year the owner reaches a specific age, the required beginning date (RBD).[2] Distributions are taxed as ordinary income.
- ROTH SEP IRA – No RMDs are required during the life of the owner. Qualified[1] 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.

[1] 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.

[2] Under current law, the RBD increases after 2022: (1) to age 73 for those born from 1951 to 1958; and (2) to age 75 for those born after 1958. Previously, age 72 was the mandated age to begin RMDS.

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