

SEP FAQs

1. What is a SEP and a SEP IRA?

A Simplified Employee Pension (SEP) plan allows employers to contribute to traditional IRAs called SEP IRAs that are established for employees. SEPs allow for employer contributions only. The amounts contributed to SEPs can be much larger than amounts contributed to traditional IRAs.

2. Who can establish a SEP?

A business of any size can establish a SEP including sole proprietors, partnerships, and corporations—including S corporations.

3. How do I establish a SEP with PCS | Aspire?

SEP plans may be established through Aspire. Fill out the IRA form 5305-SEP, and the Aspire SEP IRA employer Agreement and return to Aspire. Once signed, the 5305-SEP becomes the plan's basic legal document describing employees' rights and benefits. Employers keep the original documents for their records.

4. What is the deadline to set up a SEP?

A business can set up a SEP plan as late as the due date (including extensions) of the income tax return for that year.

5. Can an employer maintain a SEP and another retirement plans?

Yes. You can maintain both a SEP and another plan. However, unless the other plan is also a SEP, you cannot use Form 5305-SEP—you must adopt either a prototype SEP or an individually designed SEP.

6. Which employees are eligible to participate in a SEP IRA?

Employees must be included in the SEP plan if they have:

- Attained age 21
- Worked for the business in at least 3 of the last 5 years
- Received at least \$650 in 2021 and 2022; \$600 in compensation (in 2016 - 2020) from your business for the year.

Employers may use less restrictive requirements.

7. Are eligibility requirements the same for employees and owners in a SEP plan?

Yes. The eligibility provisions must apply equally to owners and employees.

8. What are the contribution rules?

Employer contributions for each eligible employee must be:

- Based only on the first \$305,000 of compensation for 2022
- The same percentage of compensation for every employee
- For 2022, limited to the lesser of \$61,000 for 2022 or 25% of compensation
- Paid to the employee's SEP-IRA

In plan operation, an employer must follow the definition of compensation stated in the plan document. Compensation generally includes the pay a participant received from you for personal services for a year.

Special computations for self-employed individuals. The same limits on contributions made to employees' SEP-IRAs also apply to contributions if you are self-employed. However, special rules apply when figuring the maximum deductible contribution. See [Publication 560](#) for details on determining the contribution amount.

An employer does not have to contribute every year. When you contribute, you must contribute to the SEP-IRAs of all participants who actually performed personal services during the year for which the contributions are made, even employees who die or terminate employment before the contributions are made.

9. When must contributions be deposited?

Contributions must be deposited by the due date (including extensions) for filing the employers federal income tax return.

10. Who owns the SEP contributions?

Contributions to SEP accounts are always 100% vested, or owned, by the employee.

11. What information does an employer need to give to employees?

Employees eligible for the SEP IRA employer contribution must be given a completed copy of the Form 5305-SEP and the other documents and disclosures listed in the instructions on the form.

12. What happens if an employee elects not to participate?

The employer may establish a SEP-IRA for an employee who is unwilling or not able to establish a SEP-IRA.

13. Can I set up a SEP for my self-employment income if I participate in my employer's retirement plan?

Yes, you can set up a SEP for your self-employed business even if you participate in your employer's retirement plan at a second job.

14. What are the basic withdrawal rules?

■ Distributions

- Distributions and withdrawals follow the IRA rules.

■ Rollovers

- Rollovers follow the IRA rules.

■ Participant Loans

- Loans are not permitted

15. Where can I find additional information?

The Internal Revenue Service provides detailed information on SEP plans at <https://www.irs.gov/retirement-plans/plan-sponsor/simplified-employee-pension-plan-sep>