

SEP IRA VS. SOLO 401(k)

▶ WHAT'S THE DIFFERENCE?

If you and your spouse are the only employees in your business, you have several options available to you to save for retirement. The most common options are either a SEP IRA or solo 401(k) Plan.

▶ BUT WHICH IS THE BEST OPTION?

The answer depends on several factors. However, a SEP IRA is generally a better option for:

- Those with new, variable, or highly cyclical businesses or industries
- Your retirement plan compensation (a W-2 for a corporation or net Schedule C Income for a sole proprietorship/ single member LLC) is above \$300,000
- Those looking for a lower administrative burden

But don't ignore the 401(k)! A 401(k) Plan has a greater advantage the lower your compensation is due to Employee Contributions. For example, if your W-2 is \$100,000 each year, the maximum you can contribute to a SEP IRA is \$25,000. If you selected a 401(k) Plan you could contribute up to \$44,500 per year. In addition, for those ages 50 and older you get an extra \$6,500, bringing that total to \$51,000, or more than double the SEP IRA amount!

For the best fit in your situation, reach out to your professional advisor at CRI TPA Services.

	SEP IRA	SOLO 401(k)
Employee Contributions	Not allowed – employer only	\$19,500 salary deferrals allowed \$6,500 additional catch-up (Ages 50+) Pre-tax or Roth contributions allowed
Employer Contributions	Discretionary Employer Contributions	Discretionary Employer Contributions
Maximum Annual Contribution Per Participant	Contributions up to 25% of retirement plan compensation not to exceed \$58,000 for 2021	Contributions up to the lesser of 100% of retirement plan compensation or \$58,000 for 2021 (\$64,500 for ages 50+)
Deadline for Establishment	Due date of tax return, including extensions	Due date of tax return, including extensions
Deadline for Funding	Due date of tax return, including extensions	In general, both employee* and employer contributions are due by the due date of tax return, including extensions. *Depending on entity type, may be sooner*
Form 5500 Filings	No	Yes, once plan assets exceed \$250,000 or upon plan termination