

Setting up a SEP-IRA

As a business owner you have likely heard about the tax advantages of setting up a retirement plan for you and your employees. Many small business owners, however, have also heard some of the horror stories and administrative nightmares that can go along with plan sponsorship. Through marketing information that you receive, you may have learned that a simplified employer plan (SEP) is a retirement plan you can sponsor without the administrative hassle associated with establishing other company plans, including Keoghs.

Evaluate your needs

Even though establishing a SEP is actually quite an easy process, it involves understanding your businesses' tax situation as well as the specific rules with which your business must comply. This means that it is best to consult your tax adviser before you go forward with SEP sponsorship. Your tax adviser will have knowledge of the rules involved with the maintenance of a SEP, with your business's overall tax situation, and with how a SEP would work for your business in comparison with other types of retirement plans. Recent changes in the law have made the deductible contribution limit for SEPs comparable to the more complicated profit-sharing plans.

Getting started

Once you and your tax advisor have concluded that a SEP is the right type of plan for you, you can go to a bank or other financial institution and obtain some standardized forms, which you can complete with the assistance of your tax adviser. Once the paperwork has been completed the process involves establishing an IRA for each employee for whom you will be making contributions.

Once you establish a SEP, the administrative requirements are simple. The IRS and each employee must be sent an annual statement about SEP contributions made on behalf of the employee and the value of that employee's accounts at the beginning and the end of the year. This responsibility can be handled by the financial institution for a small fee.

A helpful aspect of establishing a SEP, especially at this time of the year, is that it can be started as late as the due date of the employer's tax return for the year (including extensions). This gives you a chance to see what your economic situation is and exactly how the SEP contribution can be used to minimize your tax liability.

If you want assistance in establishing a SEP for your business, contact us for further information.