

Owner-only 401(k) vs. SEP IRA



Wealth Management

	Owner-only 401(k)	SEP IRA
Target market	Small business owners who have no full-time employees other than their spouse	Small business owners who may or may not have employees
Employee eligibility	<ul style="list-style-type: none"> • Age 21 or older • One year of service (1,000 hours in a 12-month period) 	<ul style="list-style-type: none"> • Age 21 or older • Worked three out of five preceding years • Earned at least \$600 in year of eligibility
Maximum employer contribution (2021)	25% of gross eligible payroll* up to \$58,000	25% of gross eligible payroll* up to \$58,000
Maximum salary deferral, employee contribution	100% of compensation; limited to \$19,500 in 2021	Not allowed
Catch-up contributions for participants age 50 or older	\$6,500 in 2021	Not allowed
Loans	Usually the lesser of 50% of vested account balance or \$50,000.	Not allowed
Nondiscrimination testing	Not applicable	Not applicable
IRS Form 5500	Not required until plan assets exceed \$250,000; when needed, may qualify to file Form 5500-EZ, which is a streamlined version of the Form 5500	Not applicable
Third party administrator	May be required to: <ul style="list-style-type: none"> • Prepare annual 5500-EZ Form • Monitor and report distributions • Provide loan administration • Monitor contribution limits 	May be required to: <ul style="list-style-type: none"> • Calculate contribution amounts • Determine eligibility
Deadline for plan establishment	Last day of plan year (December 31 for calendar year plans)	Business owner's tax-filing deadline (usually April 15 for sole proprietors); extensions do apply

*Compensation for a self-employed individual (sole proprietor or partner) is that person's earned income. The starting point to determine the individual's earned income is the net profit amount from the Schedule C (or Schedule K-1 for a partnership).
 Earned income = net profit – ½ of self employment tax contribution.

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