

# Owner-only 401(k) vs. SEP IRA



Wealth Management

	Owner-only 401(k)	SEP IRA
<b>Target market</b>	Small business owners who have no full-time employees other than their spouse	Small business owners who may or may not have employees
<b>Employee eligibility</b>	<ul style="list-style-type: none"> <li>• Age 21 or older</li> <li>• One year of service (1,000 hours in a 12-month period)</li> </ul>	<ul style="list-style-type: none"> <li>• Age 21 or older</li> <li>• Worked three out of five preceding years</li> <li>• Earned at least \$600 in year of eligibility</li> </ul>
<b>Maximum employer contribution (2020)</b>	25% of gross eligible payroll* up to \$57,000 (or \$63,500 if over age of 50)	25% of gross eligible payroll* up to \$57,000
<b>Maximum salary deferral, employee contribution</b>	100% of compensation; limited to \$19,500 in 2020	Not allowed
<b>Catch-up contributions for participants age 50 or older</b>	\$6,500 in 2020	Not allowed
<b>Loans</b>	Usually the lesser of 50% of vested account balance or \$50,000.	Not allowed
<b>Nondiscrimination testing</b>	Not applicable	Not applicable
<b>IRS Form 5500</b>	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
<b>Third party administrator</b>	May be required to: <ul style="list-style-type: none"> <li>• Prepare annual 5500-EZ Form</li> <li>• Monitor and report distributions</li> <li>• Provide loan administration</li> <li>• Monitor contribution limits</li> </ul>	May be required to: <ul style="list-style-type: none"> <li>• Calculate contribution amounts</li> <li>• Determine eligibility</li> </ul>
<b>Deadline for plan establishment</b>	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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