



919-525-1975 info@zenaccountingsolutions.com

SEP	SIMPLE	Solo 401(k)
Above the line deduction for contribution made (reduces Fed and State income tax)	Above the line deduction for contribution made (reduces Fed and State income tax)	Like a traditional 401(k) plan, but you can contribute as both employee and employer. May not have any other employees except self and spouse.
Relatively quick and simple set up with low admin fees	Relatively quick and simple set up with low admin fees	May have higher Administrative costs from brokerage firm, must file Form 5500-EZ with IRS if plan is over \$250K in assets, more paperwork to set up
Retirement Savers Credit if AGI is under \$62,000 Married Filing Jointly or \$31,000 others (subject to phase-out limits)	Retirement Savers Credit if AGI is under \$62,000 Married Filing Jointly or \$31,000 others (subject to phase-out limits)	Retirement Savers Credit if AGI is under \$62,000 Married Filing Jointly or \$31,000 others (subject to phase-out limits)
Max of 25% of net earnings from self-employment* (effective rate is 20% of net income) or \$54,000	Employee contribution of Up to 100% of net earnings from self-employment* up to \$12,500 (\$15,500 if age 50 or over) and employer contribution of 3% of net earnings from self-employment	Employee portion- max contribution is \$18,000 or \$24,000 if age 50 or over. Employer portion is Max of 25% of net earnings from self-employment* (effective rate is 20% of net income) or \$54,000
If you also have other IRAs, deductions for contributions will be limited based on income	If you also have other IRAs, deductions for contributions will be limited based on income. If you have a 401K through a job, your employee contributions to both plans will be limited based on how much you contribute, respectively	If you also have other IRAs, deductions for contributions will be limited based on income. If you have a 401K through a job, your employee contributions to both plans will be limited based on how much you contribute, respectively
10% penalty on early withdrawals before the age of 59 1/2	25% penalty for early withdrawal from a SEP if within 2 years of plan inception	10% penalty on early withdrawals before the age of 59 1/2
Can be set up as late so the due date (including extension) for the business tax return for the year. Same for contributions.	If have never had a SIMPLE IRA, set up as late as Oct. 1 of first year that you want to make contribution. Contribution deadline for employee portion is Jan 30 of following year. Employer portion is due by date return is filed.	Set up deadline is Dec. 31 of the first year you want to make a contribution. Sole proprietors may make contribution up until due date of the tax return.
Subject to Required Minimum Distribution (RMD) at age 70 1/2	Subject to Required Minimum Distribution (RMD) at age 70 1/2	Subject to Required Minimum Distribution (RMD) at age 70 1/2



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Can convert to a Roth IRA later (taxes on conversion will depend on various factors- consult your financial planner and tax advisor)	Can convert to a Roth IRA later (taxes on conversion will depend on various factors- consult your financial planner and tax advisor)	Can elect to make Roth contributions instead of traditional contributions.
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***Net earnings from self-employment is a rotating formula of income-expenses – ½ SE tax – the SEP or SIMPLE deduction. Therefore, the max SEP or SIMPLE allowed is normally around 20% of total business net income.**

Example:

You are 40 and have a small business. Your net earnings from self-employment are \$80,000. How much can you contribute?

SEP	SIMPLE	Solo 401K
$20\% * 80K = 16,000$	$12,500 + (3\% * 80K) = \$14,900$	$18,000 + (20\% * 80K) = 34,000$