

SEP IRA: The Best Retirement Plan for Single Member LLCs and 1099 Workers

A Simplified Employee Pension Individual Retirement Account (SEP IRA) is an excellent retirement savings option for self-employed individuals, single-member LLC owners, and 1099 workers. This retirement plan is especially beneficial for small business owners due to its simplicity and low overhead costs compared to conventional retirement plans.

What is a SEP IRA?

A SEP IRA is a retirement account designed for self-employed individuals, small business owners, and those earning freelance income. This plan allows the employer, or self-employed individual, to make tax-deductible contributions to their own and their employees' retirement savings. Unlike traditional retirement plans, SEP IRAs have lower start-up and operating costs, making them ideal for small businesses.

Who Can Contribute?

Any eligible employee, including self-employed individuals, can contribute to a SEP IRA. To qualify, an individual must:

- Be at least 21 years old.
- Have worked for the employer in at least three of the last five years.
- Have received at least \$750 in compensation for 2024 **【20†source】** .

This flexibility means that even freelancers and gig workers without an established business can set up a SEP IRA, making it a versatile option for many types of earners.

Maximum Contribution

For 2024, the maximum contribution to a SEP IRA is the lesser of \$69,000 or up to 25% of compensation or net self-employment earnings. The limit on compensation that can be used to calculate the contribution is \$345,000. Self-employed individuals can also benefit from these generous contribution limits, which allow significant retirement savings each year **【20†source】** .

Contribution Deadline

Contributions to a SEP IRA must be made by the tax filing deadline, including extensions, of the employer's return. This provides flexibility for small business owners and self-employed individuals to fund their SEP IRA up until their tax return is due **【20†source】** .

How to Open a SEP IRA

Contact Asset Guidance Group, LLC, a registered investment advisor, about opening a SEP IRA for your small business. You can set up a SEP IRA for a given tax year as late as the due date (including extensions) of your business income tax return for that year. This means you can establish and fund a SEP IRA for the 2024 tax year until your income tax filing deadline in 2025.

Tax Treatment

Contributions to a SEP IRA are tax-deductible, including those made to employee accounts. You can deduct the lesser of your contributions or 25% of compensation, subject to the compensation cap (\$345,000 in 2024). For self-employed individuals, the deduction is capped at 25% of net self-employment income, which is net profit less half of your self-employment taxes paid and your SEP contribution.

Calculating Contribution Limits

Business owners can legally 'double-dip' and make contributions as both an employee and employer to their SEP IRA. However, contributions must be an equal percentage of compensation for all eligible employees. This rule ensures

fairness but also makes the SEP IRA best suited for self-employed individuals or small businesses with few or no employees.

For 2024, employer contributions to an employee's SEP IRA cannot exceed the lesser of \$69,000 or 25% of the employee's compensation or net self-employment earnings. Elective salary deferrals and catch-up contributions are not permitted in SEP plans.

Why Choose a SEP IRA?

A SEP IRA is one of the best retirement plans for single-member LLC owners and 1099 workers due to its high contribution limits, tax benefits, and simplicity. If you're a small business owner or self-employed individual, consider setting up a SEP IRA to secure your financial future and take advantage of the significant tax savings it offers.

Sources:

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