**Abstract:** Simplified Employee Pension (SEP) plans can be flexible and, well, simple vehicles that small businesses can use to offer retirement benefits to employees. This article explains how they work and reminds readers that there’s still time to set one up to benefit on a 2018 income tax return.

**You’ve got time: Small businesses can still set up a 2018 SEP** **plan**

Are you a high-income small-business owner who doesn’t currently have a tax-advantaged retirement plan set up for yourself? A Simplified Employee Pension (SEP) plan may be just what you need, and now may be a great time to establish one.

A SEP plan has high contribution limits and is simple to set up. Best of all, there’s still time to establish one for 2018 and make contributions to it that you can deduct on your 2018 income tax return.

**2019 deadlines for 2018**

A SEP plan can be set up as late as the due date (including extensions) of your income tax return for the tax year for which the plan is to first apply. That means you can establish a plan for 2018 in 2019 if you do it before your 2018 return filing deadline. You have until the same deadline to make 2018 contributions and still claim a potentially hefty deduction on your 2018 return.

Generally, other types of retirement plans would have to have been established by December 31, 2018, for 2018 contributions to be made (though many of these plans do allow 2018 contributions to be made in 2019).

**High contribution limits**

Contributions to SEP plans are discretionary. You can decide how much to contribute each year. But be aware that, if your business has employees other than you, 1) contributions must be made for all eligible employees using the same percentage of compensation as for you, and 2) employee accounts are immediately 100% vested. The contributions go into SEP-IRAs established for each eligible employee.

For 2018, the maximum contribution that can be made to a SEP-IRA is 25% of compensation (or 20% of self-employed income net of the self-employment tax deduction) of up to $275,000, subject to a contribution cap of $55,000. (The 2019 limits are $280,000 and $56,000, respectively.)

**Simple to set up**

A SEP plan is established by completing and signing the very simple Form 5305-SEP (“Simplified Employee Pension — Individual Retirement Accounts Contribution Agreement”). Form 5305-SEP isn’t filed with the IRS, but it should be maintained as part of the business’s permanent tax records. A copy of the form must be given to each employee covered by the plan, along with a disclosure statement.

Because of their simplicity and the great flexibility you have in making contributions, SEP plans are good “starter” retirement plans for small businesses. They’re also well suited for cash-flow dependent businesses such as construction companies, restaurants and seasonal businesses that may not always have dollars at the ready to contribute.

**Less onerous**

Additional rules and limits do apply to these plans, but they’re generally much less onerous than those for other retirement plans. Contact our firm to learn more about SEP plans and how they might reduce your tax bill for 2018 and beyond.

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