

Golden Bullets

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SEP OR SIMPLE:

THINGS TO CONSIDER

Our entrepreneurial clients are full of questions related to taxes. The most common one that I get is this:

Is there something we can spend money on through my business that generates a tax deduction for the company while still being excluded from my personal income?

After talking about the alternatives that might be available, we usually discuss qualified plans. Pension plan contributions are tax-deductible by the business, and the participating employee—including an owner-employee—avoids personal income tax on the front end.

So, why doesn't every business have a pension plan? Qualified retirement plans come with substantial baggage:

- All eligible employees must be included.
- A plan cannot discriminate in favor of certain employees.
- Related businesses must be aggregated together.
- A plan document must be implemented and kept up-to-date.
- Other strict administrative requirements must be observed.

However, some retirement plans are easier than others. The federal government has created choices that can overcome some of the difficulties associated with pensions. The two most popular are **Simplified Employee Pensions (SEPs)** and **Savings Incentive Match Plan for Employees (SIMPLEs)**.

Which one might be the best fit? It depends on many things. However, we do have some general observations.

The SEP is usually the best pension choice in these situations:

1. The employer wants the easiest possible pension plan to set up and administer.
2. The only employee of the business is the owner, or only the owner and spouse.
3. There are few employees of the business, and the owner earns substantially more than the other employees combined.

The SIMPLE is typically a better choice in those situations:

1. The employer wants employees to share responsibility for their retirement savings.
2. The employer of a small company wants much simpler administration than a Section 401(k) or Section 403(b) plan.

Do you know a business owner who is looking to generate tax deductions? Are you an entrepreneur worried about the adequacy of your own retirement savings? Have you wondered whether a SEP or SIMPLE might be the right pension plan for your own business? We would be glad to talk things over with you.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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