

Golden Bullets

Private Wealth Financial Partners

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SIMPLIFIED EMPLOYEE PENSIONS (SEPs):

THINGS TO CONSIDER

Every year around the tax filing deadline it feels like many of the people I talk to are looking for tax deductions that will be effective for **last year**. Usually, the taxpayer is seeking to reduce the surprising large federal income tax bill associated with income and profits from the prior calendar year.

The IRS taxes most transactions in the year in which they occur. Income, for example, that was received on December 31 is generally included in taxable income for 2020. Likewise, expenses incurred and paid at the beginning of a particular year cannot be arbitrarily shifted into the prior one.

There are some things that get special tax timing treatment. For example, an individual who is eligible to make a **deductible IRA contribution** may do so on or before the tax filing deadline for the prior year. For 2020, that means the deductible contribution can be made **as late as May 17, 2021**.

Business owners may have an even greater IRA-oriented opportunity to recognize an income tax deduction for last year by funding a **simplified employee pension (SEP)** before the **extended due date** for the 2020 return. For a sole proprietor, that would be as late as October 15, 2021.

What is a SEP? It's a special kind of IRA-centered pension plan that is popular with many closely-held businesses that have only a few employees. SEPs have a number of advantages that make them worth considering.

- 1. SEPs are easy to set up.** Most employers just fill in a simple IRS form—5305-SEP—to establish a SEP.

2. **SEPS are easy to administer.** No complicated nondiscrimination testing or complicated IRS annual reporting is needed.
3. **SEPs are easy to make contributions to.** An employer contributing to a SEP simply makes the appropriate deposits into an employee's IRA (including an owner-employee). Contributions are usually a fixed percentage of the employee's compensation.
4. **Even if there are no employees other than the owner, the business can generally implement a SEP.**

SEPs do have their drawbacks. For example, the employer generally must contribute to the SEP for all employees. Also, the contributions to a SEP and the associated earnings are fully under the control of the employee at all times.

Due to the ability of a business to set up and deductibly fund a SEP well into the next year, it is an attractive idea for many business owners to consider.

Is a SEP worth considering for your business? Are you seeking ways to manage your income tax liability? Together with your accountant, I think I can help you.

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

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