



## SEP IRA vs. Solo 401(k) Plan: Which is right for your business?

Feature, Stipulation, or Requirement	SEP IRA	401(k)
<b>Who may establish?</b>	Sole proprietorships, partnerships, and small businesses.	Sole proprietorships, partnerships, corporations, and limited liability companies.
<b>Can an employer sponsor other qualified retirement plans?</b>	Yes. <b>Watchout:</b> unless the other plan is also a SEP, you cannot use Form 5305-SEP; you must adopt either a prototype SEP or an individually designed SEP that allow for the other plan.	Yes
<b>Roth Contributions</b>	Not permitted	Permitted
<b>Loans</b>	No	Permitted
<b>Deadline for Making Deposits</b>	Employer's tax filing deadline.	Salary deferrals-as soon as contributions can be segregated from employer assets; Employer contributions by the employer's tax filing deadline.
<b>Maximum Employee Contributions</b>	Generally none.	Lesser of 100% of compensation or up to \$22,500* + \$7,500* catch up if over age 50.
<b>Maximum Employer Contribution</b>	Lesser of 25% of adjusted earned income or \$66,000**	Lesser of 25% of adjusted earned income or \$66,000**
<b>Maximum Compensation</b>	\$330,000*	\$330,000*
<b>Distributions</b>	May be taken at anytime	Available upon distributable event
<b>5500 Filing</b>	Not required	Required, unless owner only plan with balance of less than \$250,000.
<b>What if you hire someone? Further Considerations:</b>		
<b>Employer Contribution Formula</b>	Discretionary; Must be a level percent of pay for all participants	Discretionary; Several allocation methods available – pro-rata, age weighted, cross tested
<b>Vesting</b>	Immediate	Vesting schedule may be applied to employer contributions – i.e. 3 year cliff or 6 year graded

\*2023 Limits

\*\* Calculated as net business income - deduction for Self-Employment Tax divided by 1+ annual contribution percentage of the employer. This results in the total business profit after self-employment taxes and employer contributions to the retirement plan.



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