



Simplified employee pension (SEP) plans

A SEP plan is an employer-sponsored, tax-favored retirement plan that offers small businesses an attractive alternative to standard profit sharing plans.

In a simplified employee pension (SEP) plan, an employer deposits contributions into the SEP IRA accounts of each participant rather than into an employer trust account, thereby simplifying the accounting process. And unlike a traditional qualified plan, a SEP doesn't involve an extensive written plan document and has minimal compliance reporting and disclosure requirements.

ADVANTAGES OF ESTABLISHING A SEP PLAN

EASY SETUP

A SEP plan is like a "corporate IRA" established by an employer for the benefit of each employee. There are no requirements for a separate employer trust account, because each employee establishes their own SEP IRA.

TAX ADVANTAGES

SEP contributions are tax deductible to the employer, and all earnings are tax deferred for employees.*

MINIMAL ADMINISTRATIVE COSTS

Employers sponsoring SEP plans are not required to file annual plan returns, unlike employers sponsoring qualified pension or profit sharing plans.

CONTRIBUTION FLEXIBILITY

Employers can make annual discretionary contributions of up to 25% of each eligible employee's compensation up to a maximum of \$72,000 per person in 2026.

TAX-PLANNING FLEXIBILITY

SEP plans can be established until tax-filing deadlines, including extensions.

INVESTMENT FLEXIBILITY

Because employees can choose where their accounts are established, they may have a wide range of investments from which to choose.

LIMITED LIABILITY

Employers' fiduciary duties are reduced because participants choose their own investments after establishing their SEP IRA accounts.

*Withdrawals may be subject to income taxes, and prior to age 59 1/2 a 10% federal penalty tax may apply.

ESTABLISHING A SEP PLAN

Business entities, including sole proprietorships, partnerships and corporations, as well as certain tax-exempt organizations, can establish SEP plans for their employees. An employer begins by executing a SEP plan document, either the IRS Model SEP document 5305-SEP available on the IRS.gov website or a prototype SEP document available through a document provider. Then, each eligible employee opens a SEP IRA account and the employer makes contributions to those accounts on behalf of its employees. To be valid for any given tax year, the SEP plan document must be executed and the SEP IRA accounts established and funded by the due date of the employer's tax return, including extensions.

Investment alternatives for the employees' SEP IRA accounts will depend on where the accounts are established and may include common and preferred stocks, corporate bonds, government securities, open- and closed-end mutual funds, variable annuities, CDs and REITs. These choices provide the flexibility and diversification designed to respond to changes in both the financial markets and in each investor's needs and objectives.

Your financial advisor can explain these alternatives to you and your employees.

CONTRIBUTIONS AND PARTICIPANT ELIGIBILITY

A SEP plan is funded by the employer and is 100% vested at all times. The SEP contribution limit is 25% of an individual employee's compensation, or \$72,000 for 2026, whichever is less. Social Security integration is allowed if you use a prototype SEP document that includes this provision, but this increases the plan's administrative complexity and cost.

The employer must make a contribution on behalf of any employee who is at least 21 years old and has worked for the business in any three of the preceding five years, provided that in the year the employee becomes eligible, he or she earns more than the minimum indexed compensation amount.

This requirement applies to both full- and part-time employees. The employer may set less restrictive age or service requirements, but the eligibility rules must be applied on a consistent basis to all employees, including owner-employees.

To further simplify the administration of your SEP plan, Raymond James, as custodian, will receive contributions, provide detailed records of transactions, prepare statements reflecting all assets, make distributions and handle the tax-reporting functions. You and your employees will receive consolidated statements reflecting all pertinent account activity during the year.

At your request, your Raymond James financial advisor can also provide ongoing assistance to help you and your employees choose appropriate investments for your individual accounts based on factors including, but not limited to, age, number of years until retirement, market conditions and risk tolerance.

FREQUENTLY ASKED QUESTIONS

If a business owner later decides that another type of plan best suits their needs, can the employees' SEP IRA account balances be rolled over into a qualified retirement plan?

Yes. SEP IRA assets can be rolled over into a qualified retirement plan provided the plan accepts rollovers.

If a person has a side business, but is covered by a retirement plan at their regular job, can he or she deduct SEP IRA contributions made based on their compensation from the side business?

SEP contributions are fully deductible (within allowable limits) regardless of active participant status in other company-sponsored plans.

If the business owner is self-employed, can he or she contribute 25% of their Schedule C earnings?

Not exactly. The amount that the business owner can contribute can be calculated using the three-step process illustrated below.

CALCULATING A SELF-EMPLOYED BUSINESS OWNER'S CONTRIBUTION

STEP ONE

Subtract the owner's adjusted OASDI self-employment tax (Schedule SE) from the net profit reflected on Schedule C to arrive at the adjusted net profit (ANP).

STEP TWO

Divide ANP by one plus the contribution rate (1.25 for a 25% contribution). The result is earned income.

$$\frac{\text{ANP}}{1 + \text{Plan contribution rate}} = \text{Earned income}$$

STEP THREE

Multiply earned income by the contribution rate to determine the owner's contribution.

EXAMPLE

A business owner decides to make a 25% SEP contribution. Contributions for eligible employees have already been made, leaving Schedule C earnings of \$100,000.

	2026
Schedule C earnings	\$100,000
Less adjusted self-employment tax deduction (Schedule SE)	\$7,065
Adjusted net profit (ANP)	\$92,935
Divide ANP by 1.25	\$74,348
Multiply by contribution rate of 25%	\$18,587
Self-employed business owner's contribution is	\$18,587

TAKING THE NEXT STEP

Your advisor can help you determine if a SEP plan is appropriate for your business.

**NOT Deposits • NOT Insured by FDIC or any other government agency
NOT GUARANTEED by the bank • Subject to risk and may lose value**

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